S&P Global
Market Intelligence

Allianz SE XTRA:ALV

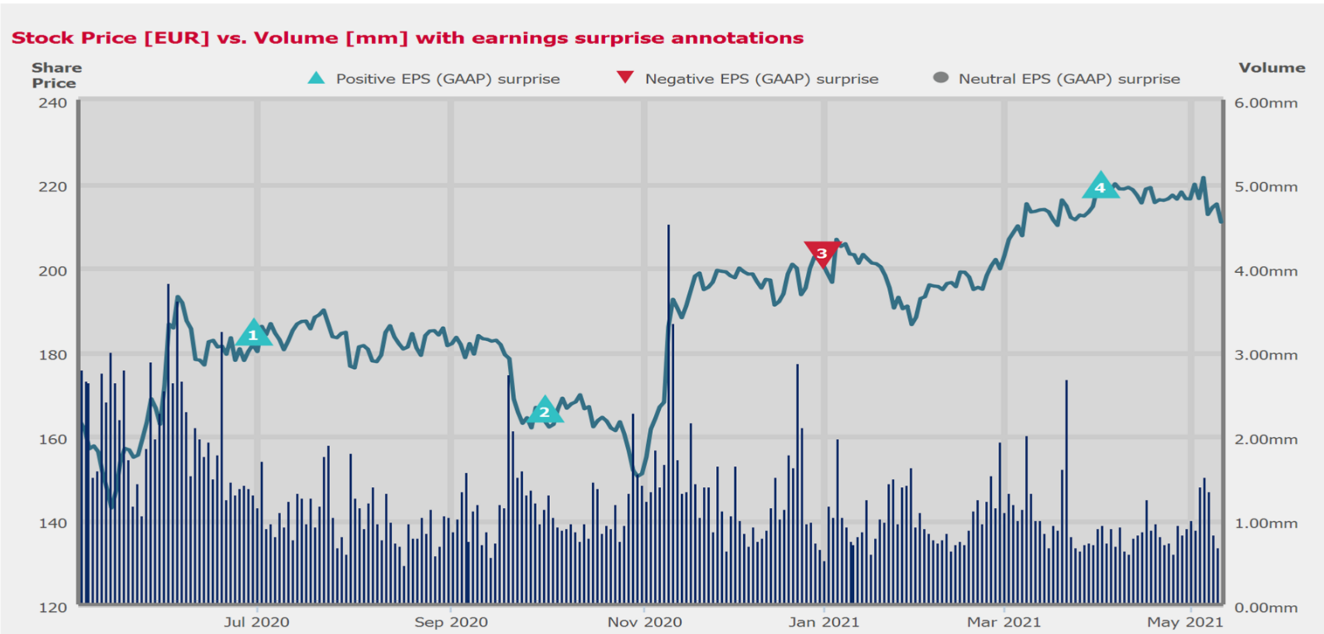
FQ1 2021 Earnings Call Transcripts

Wednesday, May 12, 2021 6:30 AM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2021-			-FQ2 2021-	-FY 2021-	-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS (GAAP)	5.18	6.20	19.69	3.95	19.68	NA
Revenue (mm)	41395.00	41400.00	0.01	NA	142337.00	NA

Currency: EUR
Consensus as of May-12-2021 10:19 AM GMT



- EPS (GAAP) -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2020	3.40	3.73	9.71 %
FQ3 2020	4.04	4.89	21.04 %
FQ4 2020	4.64	4.39	(5.39 %)
FQ1 2021	5.18	6.20	19.69 %

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Call Participants

EXECUTIVES

Giulio Terzariol
CFO & Member of the Management Board

Holger Klotz

ANALYSTS

Ben Dyson

Christiaan Hetzner

Christian Schnell

David Walker

Michael Flämig

Samuel Casey

Stephan Kahl

Unknown Analyst

Presentation

Holger Klotz

[Interpreted] Good morning, ladies and gentlemen in Munich, and welcome to our telephone conference of Allianz regarding the financial results of the first quarter 2021. As usual, our CFO, Giulio Terzariol will guide you through the results. And thereafter, we have a question-and-answering session.

And I will now hand over to Giulio Terzariol.

Giulio Terzariol
CFO & Member of the Management Board

[Interpreted] Thank you, Holger. And as usual, I'm very happy to present the results of Allianz for the first quarter. And let us begin with Slide #3, and you will see that we had a very good start in the year 2021. And the income rate -- the income curve is flat, but this is not surprising in view of the COVID situation. And this particularly affected the P&C line. But in Asset Management, on the other hand, we see a dynamic development.

The operating revenues are EUR 3.3 billion and is improved by 45% as compared to the previous year, and this is above our forecast. And so you know that our forecast was EUR 12 billion divided by 4 -- EUR 3 billion. And that's to say we are clearly above the forecast. And in all segments -- all segments have actually made a contribution to this good result. Combined ratio in P&C is about 93%, and this is in line with the target we have set. The new business margin in Life business is almost 3% and the new business value increased by a 2-digit rate.

And now Asset Management. Here, in this segment, we have EUR 40 billion net funds inflow. The cost/income ratio is below 60%. So altogether, it is really a very good underlying performance in all lines of business. And a surplus EUR 2.6 billion, and this means 80% above previous year's level. So it was a very good start to the year 2021 and a very good basis for the -- for further development this year.

And now Slide #5. Here on this slide, you see our capitalization and particularly the solvency ratio. Solvency ratio is 210%, and this means an improvement of 3 percentage points compared to the level at the beginning of the year. And it is adjusted for by the repayment of the [indiscernible] And here, you see an improvement of 7 percentage points. So it's a very clear improvement and very good solvency ratio. The sensitivities are more or less unchanged compared to the level which we had at the beginning of the year.

Slide #7. Here you see, as usual, the development of the solvency ratio. And here, you also see the driving factors. And what was very positive here is the organic capital generation, plus of 9%. This figure is before dividend payments and before taxes. If we actually exclude dividends and taxes, we have a growth rate of 4 percentage points. This is above the expected level of 2%. And this means a very good development.

And then we also have positive market effects here, particularly interest rates increased, and this made a positive contribution to the improvement of this ratio. And here, you see the capital management actions. And here, we have the dividend payments and we also deducted the AT1 and altogether 210%. And I think this is very good. And we have a very good organic capital generation.

And this leads me to the individual segments now. This is Slide 9. Let me begin, as usual, with the growth rate. Altogether, the internal growth rate was minus 1.6%. And if we adjusted for by Allianz Partners figures, it will be 0.5%. So this is more or less a flat curve adjusted for Allianz Partners and mainly travel insurance here. And in this segment, COVID had a very severe impact.

We also see here a negative impact from COVID in general and also the revenues of many of our customers. And this is a basis for the calculation of our premium in car insurance. We also had to grant discounts, and this explains why the growth rate in the first quarter is lower as we would normally expect. And we also believe that the corona situation is more or less behind us and that we will reach a growth rate of between 2% and 3%.

I will not actually cover the individual units here in detail. Just a few things here. In the minus 10.5%, and there was pressure on the pricing side particularly the personal business. And on the other hand, commercial business. In commercial business, the restructuring, and we want to increase profitability. In Australia, plus 5%. This is good. And this is a very good dynamic development in retail or personal business and in commercial business.

The price momentum is stable everywhere. There's only one exception, namely Italy. In Italy, the competitive pressure is particularly severe. But as you know, in Italy, we have an excellent combined ratio. And the price increases regarding AGCS, plus 22%, and this is applicable to all business lines. And we believe that this price increase is right. So the situation in the insurance industry is moving into the right direction. And this is a situation regarding revenues.

And now Slide 11. This is the development of the operating profit. All together, we actually improved by EUR 500 million. And this improvement -- the improvement regarding operating profit is due to the improvement of the combined ratio. And here, you see an improvement of nearly 5%. And the loss ratio for the current year improved by about 6 percentage points. This improvement is due to 3 factors.

In the previous year, we had the negative impact of COVID, about 2.5%. This year, the COVID impact regarding combined ratio is neutral. Now natural disasters, nat cat, we -- last year it was above our expectations. And this year, it's a plus of 2%, a positive deviation this year. And now the underlying performance. The performance is better by about 1 percentage point, and this stems from AGCS, because the profitability is better than in the previous year.

Now the cost ratio is also improving. And though we did not actually increase premiums, but we have an improvement of 30 basis points. And now the runoff result is declining by 1.6%. And I can say here in this context that we were very conservative and we want to be prepared for the situation after COVID, and we will probably see some interesting developments also regarding the loss ratio in the motor business, 90%. Well, the combined ratio here is in line with our target. And I would also say the quality of the combined ratio is very good. So we are very satisfied with the development regarding P&C.

And now on Slide 13. Slide 13, here you see the broken down by unit, combined ratio in Germany at 98%, and very strong and the quality of the combined ratio is also very good. In France, we are slightly above previous year's level, and there is still a negative impact from COVID. And this explains the situation. And now England. Here in England, you see a very good combined ratio below 90%. And the reason is that nat cats in England, that the rate is very, very low, or was very low. And in England, we have a very low loss ratio regarding motor business.

And we have a very good combined ratio. Here, you see Europe and Spain, Italy, Australia. Okay, Australia is above our expectations, better than previous year. And Australia, this year and also in the previous year, we had higher nat cat impact. And if you adjust all this, Australia has a combined ratio of about 93%, I would say. And this is a normalized profitability, which is in line with our expectations.

Now further comment of it. AGCS, 98% combined ratio. And this is also the target for 2021. And this figure contains 3% negative impact of COVID. So adjusted for COVID, the AGCS performance would be 95%. So altogether, as we predicted, we are on a very good path regarding AGCS.

Now Euler Hermes, here, the combined ratio below 80%. This is very good and is in line with the fact that we do not see any insolvencies. So altogether, it's a very good situation. Many good combined ratios in many units.

And now here at Slide 15, the capital investment result has improved compared to previous year. And what is the reason? The reason is the development regarding equities. And we have more profit and earnings from associated companies. And the current yield regarding fixed interest securities is going down, but this is not a surprise. So all together, I would say, everything is in line with our expectations. And what's very positive in this quarter was the equity development. This was very positive. And I'm talking about the revenues generated by our associated companies.

And now Life Insurance business. Altogether, the net production was very solid. Here, you see a growth rate of 8%. The growth rate is from Italy mainly. And here, you see a very good growth rate. Regarding Germany Health, APKV, this is driven by a methodological change. And here, you see the United States, a growth rate of 0 adjusted for currency exchange effects, and then the growth rate would be 8% in the United States. You see that many of our entities have increased premium.

And there's also an increase in the new business margin of 2.7% -- from 2.7% to 2.9%. So not only net production could be improved. There's also an improvement of the new business margin. Now this improvement of the new business margin is from Protection and Health. And particularly in France, measures were taken in order to make the business profitable.

And from my point of view, the development of capital-efficient products is very good. Here, you see the new business margin declined by 20 basis points, but it dropped by 20 points, though there was an adjustment of the economic name. So we were able to actually accept or cope with this, actually, negative impact. And we are also actually deciding on measures. And the figure will be better in the second quarter.

Okay. So a very good situation regarding the production and also regarding the resilience of new business margin. And this leads me to Slide 19, the operating profit. Altogether, an improvement of near 50%, EUR 400 million. And while this is easy to be explained because the performance last year was negatively impacted by the volatility in the capital markets, but the EUR 1.2 billion operating result is better than we expected. Namely, we expected EUR 1.1 billion operating profit per quarter.

And there is another factor. All business lines have contributed to this increase. And here on the right-hand side, you see it broken down by the business lines, and they have all an improvement as compared to previous years. So altogether, a very solid performance in our Life Insurance business. And I would say the new business margin and -- is good and strong, and our portfolio delivers very good results.

Now having said that, now on Page 21. As usual, we see the picture by units. I would say that the new business margin is very solid in most units, and definitely very strong in the U.S. and Asia Pacific. And also in Eastern Europe, we have a very strong new business margin, which is also the reason why we decided to do this item in Poland. In Italy, the new business margin appears to be weaker, but it's very good, the unit-linked products. So with that 1.5, we are happy.

And I would say that the only country where we are -- have to work a bit more is France. But you can also see we've achieved an improvement versus the previous year. In the operating profit and on all major units, you see that you've -- we've got a better profitability as in the previous year, which particularly is the case in the U.S. Profits were quite low last year. Now this year, under normal circumstances, our performance is coming back to the expected level, maybe even better to what we have expected. But also generally, in life insurance, we see a good picture as regards to profitability.

And then on Page 23, so the investment margin is at EUR 1 billion or even above EUR 1 billion. What happened? So the current yield and the net of the minimum guarantee stay stable. That is quite important, which shows how we consistently reduced our guarantee. And clearly, last year, we had massive impairments, whereas this year, we practically don't have any impairments any longer, which leads to a gross margin of 17 basis points. And after the participation of the policyholders, we ended good 20 basis points.

And if you combine that with the increase of the reserve, at least EUR 1 billion-plus investment margin, together with the increase of the loading that leads to a strong operating profit of EUR 1.2 billion for the quarter. That means also very good results in life insurance.

And now let's move to Asset Management on Page 25, where we definitely have a great message here. So in total, we have EUR 2.4 trillion of assets under management, which is the highest volume in the history of Allianz ever. And I don't think this will not be the end of the development. And what also is good, this success comes from all areas. Comes from PIMCO, comes from AGI. And as you can see, it also comes from all asset classes in all regions. So that is a very good picture.

And I would like to emphasize that in Asia, in the meantime, we have more than EUR 200 billion assets under management. So in Asia alone, we are a very strong asset manager.

On Page 27, we're showing the drivers for the development for third-party assets, EUR 38 billion net inflows in total. It's not only PIMCO. We are quite used to PIMCO having EUR 20 billion net inflows, but this time, AGI also has a very strong performance with EUR 12 billion net inflows. And that is the highest level for AGI. And if you look at the net flow split based on classes or regions, all asset classes, all the regions have made their contribution to that development, which is very good for the diversification of our net inflows.

And one more comment on the market movements and FX exchange. Generally, if you took these 2 drivers together, we could talk about an increase of EUR 25 billion because of these parameters. So on the whole, we are lying at EUR 1.8 trillion of asset under management. And it's important because that's a very good starting position for the second quarter.

On Page 29, obviously, when assets under management grow, we get more income. And so we grew by 9% internal growth adjusted by FX exchange. And in particular, we -- in AGI, we see a 15% growth rate, but also say PIMCO, plus

6%, still very good. Very good results in both units. The fee margin remained stable in AGI. Actually, it's declining in PIMCO by 3 basis points. But this is a launch of a closed-end fund.

So if -- bring this closed-end fund to the market, so we have to pay certain fees upfront. And of course, they will be reflected in the KPI. But after that, we will definitely also get revenues and income. So totally speaking, this is rather a good story, and that will be reflected in more profits in the future. And adjusted by these effects, so the fee margin at PIMCO would have been more or less stable.

Now on Page 31. The operating, the profit has increased by 10%. So if you take out the FX effects, the growth rate would be 16%. In PIMCO, we see a flat tendency, but that's exactly within fixed exchange causes have this negative effect. So if we adjust the figures by the FX effect, the growth rate would be 8%, and PIMCO, and since it made this investment in closed-end funds and in AGI, the story is rather successful.

Altogether, almost EUR 200 million operating profit and a cost/income ratio of 61%. Basically what we've seen in AGI. So revenues have increased by 10% and costs have gone down by 7%, which explains AGI's performance. So very good results for the quarter both in PIMCO and in AGI, and that is definitely a good starting position for the second quarter. So we look forward to the results and we look forward to the second quarter already now.

Page 33, operating stats. For the Corporate segment, we see an improvement of a total of EUR 100 million, which relates to seasonality, if you want, or exchange rates have been fluctuating. It's somewhat better than the expectations. But I would always put these figures into perspective because there's always a certain seasonality.

And on Page 35, the annual surplus lies at EUR 2.6 billion, which is 18% above the previous year level, which is due to the improved operating result and also -- we also in the first quarter saw practically no impairments. So the restructuring cost, slightly lower. The restructuring costs have been down and the effective tax rate is slightly higher than the first quarter 2020, but still lower than we would normally expect. Our expectation would have been 25%. But this year and also last year, we had a few special effects. So EUR 2.6 billion, this figure should not be taken -- or multiplied by 4, but we can definitely be happy with the performance that we've rendered in the first quarter.

Summarizing, so truly a good start into this year. On Page 37, you can see the overview. Revenues are very good. The operating profit is very good. And also a very quiet situation on the capital markets. Capital base is really strong with the solvency ratio of 210%. And as always, for this great performance, I would like to say thank you to our great employees. Having said that, I would like to accept your questions.

Question and Answer

Holger Klotz

[Interpreted] Thank you, Giulio. Now we come to our Q&A session. First of all, we're going to hear the questions and answer the questions from the German line and then from the English line. [Operator Instructions]

Now we have the first question from Stephan Kahl from Bloomberg.

Stephan Kahl

[Interpreted] Yes. Obviously, you can hear me. I just have 2 short questions. One relates to the prediction in commodity credit insurance. And to what extent has this been reflected in results? And there have not been any bankruptcies and the premiums have been referred. And the second question was on PIMCO. There was a small restructuring effort in Munich and some positions have been relocated to Munich -- to London. Will there be more relocations, more restructuring efforts in PIMCO? I would like to know that.

Giulio Terzariol
CFO & Member of the Management Board

[Interpreted] Thank you very much for the first question. For Euler Hermes, in general, in the quarter, almost EUR 40 million profit was transferred and the previous year, there was roughly EUR 100 million. So that means a lot of profit was transferred since the beginning of the corona crisis. That's fair because government took over the reinsurance. But from first of July, we're not going to have these agreements anymore. But the requirement for that quarter was roughly EUR 40 million operating result that we've seeded.

And the question about restructuring at PIMCO. I mean you always have these restructuring at PIMCO which actually is normal to have these activities. I think there was more attention in Munich. But you need to understand PIMCO is a highly dynamic organization, and that's why it is quite normal that they always check where they can find the best location and where you can be most efficient or how to better serve the customers. And I would say there are no programs at the moment. So you can assume that PIMCO always keeps on taking these measures. And it's -- like I said, it's a highly dynamic company.

Holger Klotz

[Interpreted] Next question, Mr. Huebner from Reuters.

Unknown Analyst

[Interpreted] I also have 2 questions. The first question was not really explained in detail today, Allianz Direct. This is what I would like to ask about. What is the current situation? What is the status or what have you planned? I mean there are declines in revenues, and what are your plans for the future?

And the second question relates to the outlook. There were some expectations, of course, that may be after the very good first quarter that you will actually limit or cap your outlook. And what are the reasons that you haven't done so yet? I mean if you extrapolate it, if you use the first quarter for the rest of the year, you would be above your forecast.

Giulio Terzariol
CFO & Member of the Management Board

[Interpreted] Thank you very much. Let me start with Allianz Direct. Let me give you the figures for the quarter, and I will then come back to Direct in general. So in the quarter, the growth rate was negative at Allianz Direct, it was a minus of 10%. And of course, you have to differentiate here minus 25% in Germany. In Holland, it was plus 10%. In Italy, we had a minus of 10%. And now, well -- and then this has a lot to do with the following, namely, the focus on profitability. We have this aggregation system and the profitability was not good enough. So we withdrew a little bit also in Italy. And this explains why the premiums went down.

And we just wanted to have a very good start and a very clean start. And also the IT platforms, which we wanted to develop, it is implemented in Germany already. It is implemented in Holland, in Italy. In Italy, we also had a launch of the website in the first quarter of this year. And we will then migrate to the platforms in the course of the year. And you know this is a very important strategical initiative for Allianz. And let me be -- and the -- I do not measure the success of this initiative in one quarter only. And it is a strategy design for a couple of years. And we have just laid the foundation. And in the future, we will further develop business on this foundation. So this was Allianz Direct.

Now the forecast or outlook. I mean it is philosophical that we do not adjust our outlook in the first quarter. I think this is still a little bit too early. As you might have noticed, the underlying performance is good, and there are very good indications. But it would be philosophical or it is philosophical that we do not adjust our outlook in the first quarter. A lot can happen. But you can well assume if the situation remains as it is, we will have good results at the end of the year.

Holger Klotz

[Interpreted] The next question is from Mr. Michael Flämig from Börsen-Zeitung.

Michael Flämig

[Interpreted] I have some questions. The first question is P&C after COVID, and then Allianz and then transparency. In the field of P&C, you said that the one-off procedure was very conservative in order to prepare it for the time after COVID. And is there anything else regarding the motor segment? And Allianz Direct, in the annual report, you could read that you actually mentioned the establishment of some offices and companies in some European countries. And is it your plan that you actually integrate?

And then transparency. Transparency, well, you actually broke down the quarterly results. But what are the reasons? Some time ago, you have tried to abolish the quarterly reports because investors said, well, there's a virtual AGM and that the company is rather conservative. And now you have introduced in your product, and you do not publish the respective figures. Now Allianz Direct, the following could be noted, the number of customers in Germany was not mentioned. I mean this is ridiculous because it is included in the annual report. Now my question is what is your opinion, particularly regarding the transparency?

Giulio Terzariol
CFO & Member of the Management Board

[Interpreted] Let me begin with your first question, P&C. And the runoff result. Well, we have taken very cautious measures. We know that the loss frequency or loss ratio in motor business will go up after COVID. And this also means -- and of course, also prices will be adjusted, but maybe that there will be a distance between the loss ratio and the loss trend, and that the premium might go up. There's always a delay in this development. And we want to be well prepared for this. And we want to be able to actually bridge this timely distance. And this is the reason why we take cautious measures. There is no other reason.

And now Direct insurance. What are our plans? Well, the idea is -- and I'm talking about IT and business platforms. And we want to have a very good solution, a solution which will be implemented in various markets. And this also has to do with the legal situation. And the situation is different in the various countries. And we need to do further analysis. And what is very important is the creation of the IT platform and of the business model. And this will determine how we will align ourselves and in which entities, in which form -- in which legal form.

And now transparency, I think we offer a lot of transparency in our reports. We state the figures. And well, in this case, we didn't do this, but this was not an intention. And we thought the figure was not that relevant. But transparency is very important to us. And this was not an intention that we did not actually -- that we did not state the figure.

Holger Klotz

[Interpreted] The next question is from [indiscernible]

Unknown Analyst

[Interpreted] Can you hear me?

Giulio Terzariol
CFO & Member of the Management Board

[Interpreted] Yes, we can. Very well.

Unknown Analyst

[Interpreted] I have a question regarding the corona impact. You already stated it was not a really big impact this quarter. Can you give us a figure, please? And then the German business. I'm very much interested in the business in Germany. And well, we had some decline in revenues here in P&C. And what are the reasons? And then new business -- new life business, you also had a decline. And in the area of health, there was an increase. Can you please explain the reasons for this development?

Giulio Terzariol
CFO & Member of the Management Board

[Interpreted] Let me begin with the impact of COVID. And the COVID impact in this quarter was not very, very severe. And of course, I can give you further details. Business interruptions, well, we had a loss of EUR 100 million, and this came from France and a little bit came from Germany and Ireland, so interruptions of operations. And then entertainment. And I'm mainly talking about AGCS, namely EUR 30 million.

And our profitability regarding travel insurance and credit insurance is not on our usual level. And this also has to do with revenues. This does not only have to do with combined ratio where we have EUR 50 million less profit than expected. So all together, EUR 200 million is the impact. But on the other hand, as we know, in the area of motor, the loss frequency is lower. And so altogether it is, well, I might say, 0.

COVID, well, I think the situation is not that bad anymore. It is manageable. It is much better than in the previous year. Then Germany, P&C, well, let me say the following. Commercial business. In commercial business, the figure is neutral. And in the personal lines, it is a little bit lower. But altogether, I wouldn't be surprised if the growth rate in Germany would be around 0 in the course of this year. Of course, there are also seasonal factors which have to be taken into account, and there are also accounting effects. So altogether, there will be a movement towards 0.

And now APKV, this is more or less a methodological change, which we made. Well, if you take the net value of the production, you can calculate the premiums of the future. And well, we -- and our model stopped at -- after 40 years, but there's also life after 40 years. And we have an additional growth rate regarding APKV. And if we come back to the previous method, and then the growth rate would be 3% to 4%. So I hope I could answer your question.

Unknown Analyst

[Interpreted] I asked you about life insurance. Why there was this strong decline?

Giulio Terzariol
CFO & Member of the Management Board

[Interpreted] No, no. We did not change our calculation method. You're talking about Allianz Lebensversicherungs life insurance. Okay, the development is good. And we have put the focus on this transformation. You know the 100% guarantee products and now we have progress with a lower guarantee. And in the previous year, when we had the capital-light products, the contribution was 60%, and now we have 45%. And we know we will end up with 25% at the end of this year. And you see this is how the production is developing. The new business margin 2.5% is also good. So altogether, we are actually walking into the right direction, and we are satisfied with the development of Allianz Life business.

Holger Klotz

[Interpreted] Thank you. Now the next question is from [indiscernible]

Unknown Analyst

[Interpreted] I have 2 very short questions. One question concerns Allianz Direct. What does it mean focus on profitability? What you really mean by it? Do you actually do not accept customers if they are not solvent? And then the asset management, PIMCO and AGI. And -- well, last year, there was actually a pent-up consumption. And do you assume that growth regarding asset management will become weaker once people start spending their money? This was it.

Giulio Terzariol
CFO & Member of the Management Board

[Interpreted] Well, what does profitability mean here in this context. Well, does it mean the combined ratio is 100? Well, I mean the answer is quite simple. You always have to look at the combined ratio of Direct. It's not above 100. And we always try to find out where we can make money and where we cannot make money. And there are certain segments, particularly certain distribution channels. And in those distribution channels, the combined ratio was too high. And we also have to actually take into account the acquisition cost. And the acquisition cost were too high, to put it into a nutshell. More than 100% is not the right answer.

And now PIMCO and AGI. Well, of course, there is also a market trend, and we benefit from this market development. Altogether, I would say the following. The net inflows were not that strong all the time, and it will happen that we will have a quarter where the net inflow will be negative. But in general, the tendency regarding asset management will -- means that there are savings, and institutional investors, but also private investors will look for solutions in the asset management area.

And I think we are very well aligned and prepared. We can offer all products, fixed income, multi-asset equity, alternatives, and we are also represented in all regions. This is also very important. And bear in mind, in this quarter, we actually got 60% of our net inflows from the United States and 30% are from Asia. So we are very well diversified, as you can see, very well aligned. And of course, I assume that in the long term, we will actually be able to tell a growth story in the area of asset management.

Holger Klotz

[Interpreted] The next question comes from Christian Schnell from Handelsblatt.

Christian Schnell

[Interpreted] I have one question on AGCS. So in the first quarter, you said that you're going -- that you went back into the black, that was also the declared target for the entire year. So economists expect a very larger wave of this bankruptcies, not only in Germany but also worldwide. Will this also be having any consequences for AGCS that they not might come back to the black?

Giulio Terzariol
CFO & Member of the Management Board

[Interpreted] The bankruptcy wave for this year, not so many people do expect that there is so much support from the government, that we don't -- are going to see bankruptcy wave maybe in '22, probably we might have problems in '23 or '24. But still your question is justified to what extent such a wave of bankruptcies might cause problems for AGCS. The only area where AGCS could be affected by the wave could be the D&O insurance. But I also need to say we are very careful -- specifically in the U.S., we are very careful in the D&O insurance because that's definitely a point that we have on our radar screen. That's why we're going to be even more careful with D&O insurance in the U.S., in particular. So on the whole, I would say, the 98% of AGCS is very solid.

So we can start from that statement, which also means that we also get some headwind and we can cope with some headwind. So the idea is that we achieve 98%. If we are lucky, that is the assumption. That is a solid 98% combined ratio, which also means that we get some headwind here or there that we can cope with. Plus of course, yes, there are challenges. But definitely, there will always go -- be matters that might go into the other direction. You need to consider when the economy goes back on track, then automatically we will get more contributions. So there will always be balancing out situations. It's not only one direction we're going because the world is always more colorful than we think.

Holger Klotz

[Interpreted] Now we come to the last question from the German line from [indiscernible]

Unknown Analyst

[Interpreted] I also have a question. I hope that I have missed it, maybe you've said something already. On the Suez channel, AGCS expressed how this will develop in terms of a claim for the insurance industry. Can you see what is the overall claim? And to what extent that Allianz is expecting a burden and how this impact will come from the transportation insurance? Or that meant how the payments would be made?

Giulio Terzariol

CFO & Member of the Management Board

[Interpreted] No, we don't see any impact for us. So we did not ensure the vessel theoretically. There could be an impact, but that would be rather limited. We don't see any things like business interruption. But I can say, for us, there's no consequences that are worthwhile mentioning. So what -- as regards to the impact for the industry, allegedly, there's a big claim from the government in Egypt. But I must say, I do not have the latest information on the negotiations that are running. So the only thing I can say this topic is not relevant for Allianz.

Holger Klotz

[Interpreted] And now we're turning into the English line. And we're having the first question [indiscernible] from Financial Times. [Operator Instructions]

Unknown Analyst

Two different areas I'd like to ask about. Firstly, on coronavirus. What management actions have you taken to kind of reduce the COVID bill this quarter compared to first quarter of 2020, whether it be that kind of exclusions and policies? Or -- yes, any actions you've taken there? And also just give me a flavor, maybe if you can give me some color on the growth impact, particularly in the U.K., there's been a big growth impact in the top line.

And then secondly, I would ask a question about Green Street Capital. Euler Hermes in the past [indiscernible] to Green Street Capital supply chain finance. I wondered whether there was any remaining exposure there or whether there were any wider lessons you think that Green Street Capital supply has for insurers of supply chain finance and appetite in the market to ensure bank or nonbank and supply chain finance arrangements?

Giulio Terzariol
CFO & Member of the Management Board

Okay. Thank you for the question. If I understand the first question was about what we are doing on the coverage for business interruption, yes? And then I think you had a focus on the U.K., okay?

Unknown Analyst

Yes. Renewals or anything that built into that number?

Giulio Terzariol
CFO & Member of the Management Board

Yes. Absolutely. So what we have started already last year basically was to change conditions to make very clear, especially in the U.K. where the impact of the business interruption has been significant. We have changed the policy right away. And then clearly, as we go through the renewal, we have implemented these changes. So from this point of view, our exposure to business to any pandemic has significantly reduced and it is progressively going to 0. So that's what we have done in the U.K., and we have done also in all other legislation, where we thought we need to change the policy wording.

In the sense of impact in the U.K. coming from cost decision, I will say that we should be well reserved. So we put a lot of reserves at the end of last year. So from that point of view, we don't think that we have any significant exposure to adverse court decision. It could be that we see something, but I will say we are taking a conservative view on that one.

If you ask me countries where we might still see some development on business interruption, Australia and France. These are the countries where we see a little bit more uncertainty at this point in time. In other countries, I will say that we shouldn't see significant developments that might be negative.

On Green Street Capital, Euler Hermes didn't have exposure to trade insurance, just some fidelity insurance, but this has not come into place. So from that point of view, we don't see any exposure from Euler Hermes on that one. And in general, to your question, whether this can change the way we are looking at ensuring some transaction. I would say it doesn't change there because we have always been very careful. And it tells you, for example, that Euler Hermes has not extended credit insurance for that kind of business. So I think we have always been cautious, and from that point of view, we know that we need to pay attention. You need to have very strong underwriting in place.

Clearly, every time something happens, you add to your experience and the best way to learn is from -- is learning from mistakes of others, not from your own mistakes, but yes, this is just, I will say, something where you can learn more about how to look at things in the future, but it doesn't change fundamentally the way we approach the business.

Unknown Analyst

Sure. And some other big insurers of trade credit attributes to in fact never insure Green Street Capital, obviously couldn't get comfortable. So Euler Hermes did obviously historically think that these kind of supply chain financial arrangements were not insurable and that the risk transfer was adequate. So there's no change to that. You're still a company like Green Street Capital that a nonbank lender providing kind of supply chain finance. Yes, there's no kind of change there?

Giulio Terzariol
CFO & Member of the Management Board

No, we don't have a fundamental change. Clearly, we are very cautious, but we are not taking decision. No, we are not going to do this kind of business at all, yes.

Unknown Analyst

And just -- sorry, there was just one other thing, which was around -- on the COVID-19 growth in revenues, the growth in revenues in the U.K. that was kind of negative and shrank year-on-year. So I just wondered whether the top line, what do you have there?

Giulio Terzariol
CFO & Member of the Management Board

I would say there are 2 components. One is in personal lines, we see a reduction of premium and also a little bit of volume. So clearly, there is pressure on the premium side because of the discounts on motor, just the frequency is very low, so you try to give price back to the policyholder. We also know, however, the frequency is going to go up. So we -- clearly, we gave some discounts or some reduction in premium. We tend to be a little bit more disciplined, if you want, than others. So at the end of the day, you have the effect of little below premium, but also we are losing some volume.

We believe that our strategy is going to pay off in 1, 2 years down the road. But right now, clearly, we see the growth is suffering. And then the other component is -- which is a combination of our case in corporate business. Clearly, the turnover companies is lower. So this has an impact on the premium. Then we also, anyway, try to get price increases because we want to increase the profitability and this can also cause some volumes. So if you ask me, if I should split -- but that's a rough indication, should split the impact of COVID on the growth rate of U.K. I would say the half of them might be because of COVID and the other half is [indiscernible] pruning the business.

Holger Klotz

The next question comes from David Walker, InsuranceERM.

David Walker

Can you hear me?

Giulio Terzariol
CFO & Member of the Management Board

Yes.

David Walker

Just 2 clarifications, please, and 2 questions. Total COVID costs in Q1 for the group of EUR 200 million, and then Euler Hermes handed EUR 40 million to governments as a result of the support schemes. So just clarification of those 2 numbers. I wonder if you're disappointed that Euler Hermes had to hand money to the governments because of the support schemes not working as they were designed perhaps. And then a second question, Mr. Terzariol, the [indiscernible] how much Allianz Leben have put into the ZZR in 2020? And your opinion on that? You've expanded your investment margin, but you're still having to pay into this enormous stockpile. Is that necessary?

Giulio Terzariol

CFO & Member of the Management Board

Yes. So basically, first of all, on the clarification, it's -- the impact of COVID in total is 0, but EUR 200 million was basically without considering for the frequency reduction motto. So if we take the total impact on our results, it's 0. If you just look at impact coming from business interruption, entertainment and also lower revenue basis in travel and in Euler Hermes, then you get to the minus EUR 200 million. But it's important that you understand in total, it's a wash.

On the EUR 40 million of ceded profit to the government, if I'm disappointed, yes and no. Sure. But on the other side, I think it's fair. At the end of the day, you make a reinsurance contract because that's what the government has done with us. So part of the risk was also on the government. And so I think that if you take a risk and the risk is not materializing to a certain degree, I think it's fair that the government is -- or the reinsurance company in this case, let's call it this way, is making profit. So I'm not necessarily disappointed.

And if you ask me, I have better this way than carnage of insolvency also. I think it's fair. So there was a decision that, at the end of the day, was reasonable at that time. And we shouldn't complain about the consequences. And then on the ZZR, I can tell you that last year, we put about EUR 2 billion plus of ZZR in Allianz Leben. That's more or less the number that we put on a yearly basis. So the -- just for you to know, the amount of ZZR at the end of 2020 was about EUR 17 billion. And that's basically is part of the way the business has been run now since many years. So it's nothing new.

And as you see, we can definitely support this buildup of the ZZR. If you look at the profitability and the local account of Allianz Lebensversicherungs, Allianz Life, Germany is very strong. And also, we expect profitability to remain strong and also to be growing. So the business model is such that we can afford the buildup of ZZR as it creates profit and remittances for the shareholder.

David Walker

I guess the question, Mr. Terzariol, is that the GDV BaFin does not expect anyone to use it until, what is it, 2032. So you've got another 11 years potentially or more of not using it. But if life insurer has to find money to put into it selling investments or other reserves, is that a good idea?

Giulio Terzariol
CFO & Member of the Management Board

Okay, by the way we fund the ZZR in reality. You make an investment income and part of this investment income goes in the ZZR. If you wouldn't put the money into the ZZR, you would put into the policyholder free reserve. So at the end of the day, it's still money that is supposed to flow to the policyholder one way or the other. So I'm not sure I understand your question. But just the dynamic is you create an investment income. You basically -- you had a guarantee that you need to fund. You fund the ZZR, which is a sort of additional guarantee and then the rest goes into the policyholder free reserve, if you want to call it that way.

In the absence of the ZZR, you would just put more into this free reserve to the policyholder. So the funding dynamics is -- yes, and the consequences are eventually that you are running with a higher, if you want, guaranteed reserve and the lower free reserve. From a practical point of view, I can tell you, it doesn't make, in my opinion, a bit difference. It gives more stability in the system. That's what I will say.

Holger Klotz

The next question comes from Ben Dyson from S&P, I think, Global Markets. I cannot read the media.

Ben Dyson

Just really, I was wondering if you could clarify if -- sorry to ask you again, but on the EUR 200 million COVID impact, noting that the net impact is 0. But just if you could give the breakdown of that again. I missed some elements of it. So there was the EUR 100 million from business interruption. I think 30 million from event cancelation, if I heard correctly. But yes, if you give the full breakdown, again, that would be great.

And yes, just as a follow-up to that, you mentioned that there may be some further business interruption claims coming through. But just interested if you could say what other areas of uncertainty there still is around ultimate coronavirus claims for Allianz? And when you expect this to stop being an issue for the results?

Giulio Terzariol

CFO & Member of the Management Board

So okay, the breakdown of the EUR 200 million was EUR 100 million -- about EUR 100 million is business interruption. EUR 30 million is entertainment, that's AGCS. Then I would say EUR 50 million, you can say, between Euler Hermes and partners. And then we had EUR 30 million, I would say, whatever so guys. We have EUR 30 million different lines of business, right? So that's the breakdown you were looking for?

Ben Dyson

Yes.

Giulio Terzariol
CFO & Member of the Management Board

Okay. So otherwise, the other question was where we see uncertainty because of COVID. So on all this business interruption issue, okay, I talk about that we might see still some uncertainty especially in France and U.K. -- sorry, Australia. Otherwise, I wouldn't say that, in general, you know from a loss point of view -- losses point of view, we see issues or significant issue in other areas.

Entertainment, clearly, is always something to keep an eye on, because if we have continuous lockdowns and assuming we wouldn't have the Olympics next year in Beijing, there will be potentially a loss. But I will say that beside these 2 area, business interruption and entertainment, there are no major concern. We discussed before D&O. This is something that one wants to clearly have an eye on. But fundamentally, I will say that we are going back to business as usual on many of these lines of business.

The thing that we need to watch, but there's more a consequence of what is happening in motor, is how frequency is going to go up when we go back to normal and especially how the price environment is going to adjust to it. So that's something that, clearly, we need to watch and how fast the competition is going to react to an increasing frequency. I was talking before about the U.K. where we tend to be more conservative in the way we are approaching the premium right now. So this is definitely a dynamic they play on, which eventually is going to adjust. But fundamentally, first, you go through some kind of transition where agility is going to be very important.

Ben Dyson

Okay. And just a quick follow-up actually on the D&O. Why do you, in particular, need to keep an eye on that going forward?

Giulio Terzariol
CFO & Member of the Management Board

Because the issue is going to be one day we might -- you might get insolvency. When you get insolvencies, people -- shareholders are going to have a lawsuits and then this can create a situation where the D&O has to respond. And especially in the U.S., you know, that's the national champion of -- world champion of lawsuits, you might see some interesting trend. That's the reason why we say on D&O, especially U.S., you had to pay attention.

Holger Klotz

The last question from the English line comes from Sam Casey from Insurance Insider.

Samuel Casey

I was wondering if you could explain in a bit more detail what were the drivers of profitability in AGCS, which lines been performing the best and also what your outlook is for that segment for the year, including in terms of any potential growth?

Giulio Terzariol
CFO & Member of the Management Board

Yes. I would say when I look at AGCS, we see good rate increases across the board. So I would say that the combined ratio is below 100, I will say, in all lines of business. So it's a widespread improvement. And we have been taking massive rate increases. We did a lot of re-underwriting last year. So that's also important. We just shared also -- more than doing just reunderwriting, we shared some block of business completely. So now we see that the profitability is rising across the board.

And now indeed, also, we think we're coming to a point where we can also, in a disciplined way, obviously, spend our appetite. So we feel pretty comfortable with now the level of performance that we are achieving. And so in a prudent way and a selective way, we want also now to start looking at growth. We are going to be cautious in financial lines in the U.S. That's an area where we're going to remain cautious. But I will say, outside that area, we think we're at a point where we can start looking for growing the business again.

Holger Klotz

[Interpreted] Now we come into the German line, with the last question from Christiaan Hetzner from Fortune.

Christiaan Hetzner

Now for the [indiscernible] business, you mentioned that you don't find that particularly attractive. It's -- you want to avoid that. Is this general -- are you talking in general about actually financing? And secondly, there was a comment from Mr. Greenberg that yesterday during his testimonial to the Treasury Select Committee, where he was talking about lessons learned from a regulatory perspective. He mentioned that solvency regulations effectively require insurers to deepen economic cycle problems by withdrawing the coverage exactly at the point when a business needed most of all. I know that on the banking side, they've tried to address this issue with cyclical offers as part of the model of financial regulations. Do you feel that this has not been sufficiently addressed from a regulatory perspective when it comes to insurers?

Giulio Terzariol
CFO & Member of the Management Board

Yes. So on the second question, I would say -- yes, I would say in the banking system there has been more thinking about that topic, I think also because the banking system might be more systemic. So from that point of view, I think that's the reason why there was more thinking. To a certain degree, anyway, when you look at, for example, the new proposal of EIOPA about a long-term guarantee review, they are thinking a little bit about some mitigation mechanisms, at least on the interest rates.

One could also say, okay, why don't it create some additional cushion system on other economic parameters. I would say, yes, we are a little bit behind banking industry, but I think it's also because we are an insurance company. We're all in the insurance industry and not banking industry. From a systemic point of view, there is a little bit of a different relevancy, if you want.

On the specific issue of Green Street, I would say, in general -- supply trade finance insurance and so on, I will say that we tend to be very cautious. And then it's always clearly a decision that you take case-by-case, but that's definitely not an area where we have substantial appetite. And clearly, the situation of Green Street is going to provide additional information about how you need to look into this kind of business or sometimes also you need to think about what kind of business might be having the same dynamic and how you want to approach that. So we take a cautious stance. But again, it's always eventually a decision that you take case by case.

Christiaan Hetzner

And then just asking further about that. There was something -- there was an aspect of the business that you really tried to point on about artificial intelligence and machine learning being used to project future cash flows based on historical and current data strength in the company that counts. And that one is a method for providing the supply chain financing in a particularly low cost of capital. Is that -- what are the aspects you mean in terms of not having a large appetite for this business?

And just to get back also to the regulatory issue. Certainly, maybe parts of insurance are not systemic for the economic impact. But credit insurance, I would argue, most definitely is quite critical when it comes to economic effects, particularly when the cycle is turning. So maybe there -- in that particular part of the business, there is a need to address this issue?

Giulio Terzariol
CFO & Member of the Management Board

Yes. So on the first one, I would say, yes, you can use artificial intelligence. Sometimes you can just use intelligence, this might help you, common sense. This might help you, too. But anyway, we are doing extensive use of artificial intelligence at Euler Hermes. But I tell you sometimes common sense might be the best approach to a business decision.

On the other topic, you raised a good point, by the way. But I will say on that one, you need to look at the ecosystem. So we might not have -- or the entire system of governance around that. So we might not have this kind of countercyclical movement or parameters in Solvency II. But on the other side, you saw that basically in the crisis situation that happened in 2008 and that happened also now, then you have this kind of agreement with the governments.

And right now, I will say there is a sort of system in place. So it's not that when a situation like the corona crisis happened you need to start from scratch, because there is experience from what happened in the past. So it's also a relatively easy then to come up with this kind of solutions. So when you look at the system in total, you just look at the Solvency II regime, but then you look at what kind of conversation we have with the regulator or the politician. You see that, overall, we have been able, as an industry, to provide coverage. So I think it's -- the system still working when you look at that on aggregate.

Holger Klotz

Thank you, Christiaan. So that was our last question.

[Interpreted] We're now at the end of our Q&A session. We don't have any further questions. And therefore, we are ending our today's telephone conference. Mr. Terzariol and myself say goodbye. Thank you very much for your participation. Until next time, stay healthy. Have a nice day. Goodbye.
[Portions of this transcript that are marked [Interpreted] were spoken by an interpreter present on the live call.]