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Market Intelligence

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Earnings Call

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Call Participants

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ATTENDEES

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Presentation

Holger Klotz

Good morning, everyone, and welcome to Allianz third quarter results web audio conference. As usual, our CFO, Giulio Terzariol, will guide you through the quarterly results, and we'll then take your questions.

I hereby hand over to Giulio, please.

Giulio Terzariol
CFO & Member of the Management Board

Thank you, Holger, and good morning to everybody. Welcome to the call for the third quarter results of Allianz. As always, going to page 3. I'm going to start from the 9 months result first. And as you see, we have a strong set of results with a growth of 7%, which is driven by the property casualty segment. So here, you can see our continued effort to react to the inflation that we have been seeing. And also, we see growth on this basis in the Life and Health Insurance segment. The operating profit is at EUR 11 billion, which is about 4% higher compared to the operating profit of last year. And also it's ahead of our expectation.

When we look at the segment in the Property Casualty segment, we have a EUR 5.3 billion of operating profit. This is actually in line with our expectations and also in line with prior period. Here, we see a slightly higher combined ratio compared to 2022 and also compared to our expectation. On the other side, also the investment income is higher on the background of the higher interest rates. So all in all, we end up with a performance which is absolutely in line with the outlook that we gave you a few months ago.

On the Life/Health side, we have a very strong operating profit of EUR 3.8 billion. This is significantly ahead of last year. That's also a consequence of the first time implementation of IFRS 17 in 2022, but more importantly, this is ahead of our expectation as defined by our outlook.

And then in asset management, with EUR 2.2 billion of operating profit, we are in line with the expectation. And as you see, we had another quarter of positive inflows. So all in all, for the 9 months, we are at about EUR 30 billion of inflows.

Last comment on the core net income that is up 26% over last year. Here, clearly, we need to recognize also that last year, we had some noise because of such a direful situation and also because of the disposal of Voya -- of our AGI business to -- U.S. business to Voya. If you adjust the number for all these special effects, you get to a growth in core income of about 4% exactly in line with the growth in operating profit. So all in all, very strong performance across the segment.

We should keep in mind that in 2022, we had a record operating profit for Allianz. And based on the numbers that we are seeing right now, I will say we are pretty positive that we are going to end up having a record operating profit also for 2023.

And with that, we can go now into the quarter where we have a growth rate of 9% on revenue. This is even higher compared to the growth rate that we had for the 9 months, so which means there is a sort of acceleration in the growth. And this is explained mostly by the Life/Health business and also by asset management. So right now, we see the revenue grow in asset management as opposed to the trend that we saw in the prior quarters.

The operating profit is at EUR 3.5 billion. That's clearly below the level last year. But here, we need to recognize also the significant amount of NatCat. We went back to see in our archives when we had something of this level, and we had to go back to 2011, first quarter 2011 to get to something similar to what we saw in this quarter. So the basis of the amount of NatCat that we had, the underlying performance actually is very, very strong. So there's also a strong sign of the fact that the business is definitely going in the right direction on an underlying basis.

On the Life/Health also another good quarter that's actually significantly better than our expectation by about 5 percentage points. And then in Asset Management, another solid quarter with EUR 800 million of operating profit and inflows, as I was saying before, of about EUR 11 billion.

So again, a sign of the strength of the underlying performance of the group. And as we talk about strengths, I would like to go to Page 7, where we had a solvency ratio, which is now 212%. That's an improvement of 3 percentage points compared to the level that we had at the end of June. And also, as you see, the sensitivities are reduced compared to what we had in June. So overall, I would say the package or level of Solvency II and sensitivity is definitely very strong, and that has been also recognized by rating agency like Moody's that upgraded our rating from Aa3 to Aa2. So now we are basically one of the few insurance companies having the kind of rating. So very strong rating and also very strong solvency as defined by the level and also by the sensitivity.

Now if we go to Page 9 on the -- you see the classical waterfall where we explained the movement of the solvency capital and basically what happened in the quarter, we benefited once again from the organic capital generation. That's about 2 percentage points when you deduct taxes and dividend and also the market's movement was slightly positive. So these are the 2 main effects explaining the increase of the solvency ratio to 212%.

So strong results on the capitalization level and now we can move as always into the segments at Page 11. And that's actually a very good picture for 3 reasons. First of all, the headline number of 10.8% is a good number. The second reason why that's a good picture is because you see basically growth on all OEs. So that's a widespread growth. We don't have growth driven just by a couple of entities, but that's across basically the entities. And the third reason why that's a good picture is also because the rate change or renewal is keeping up a good momentum and that's definitely positive as we think about the future development of performance of the segment.

Now we can move to Page 13. That's about the development of the operating profit in the quarter. Clearly, here, because of the significant amount of NatCat, we see a reduction of the operating profit by about EUR 500 million, and that's driven by the combined ratio increase of about 4 percentage points. If you look at the details, you can see that the NatCat swing was more than 5 percentage points, which means, actually, when you look at the underlying performance, the underlying performance has improved by about 1.6 percentage points which translate in euro amount is about EUR 300 million of improvement in underlying performance compared to the third quarter of 2022.

So from that point of view, a strong movement -- positive movement on underlying performance offset by high NatCat. If I do a normalization of our combined ratio, even assuming a NatCat load which is a little bit higher compared to the 2.5% that we usually assume, I get easily to a normalization of 93%, which is exactly in line with the target that we gave ourselves for 2023. So from that point of view, as I said, again, underlying performance is proceeding as expected, which is a good result considering the inflation environment in which we are currently in.

And now we can move to Page 15, where we show the operating profit by entities. Overall, clearly, what is eye-catching here is the combined ratio, for example, in Germany with 104%. Here, clearly, we had a significant amount of NatCat. If you adjust for the NatCat amount, actually, the level of combined ratio is pretty much in line with the expectation, 90%. You see the same in Italy, where we had 98% of combined ratio. That's because of NatCat and also weather-related losses. Also in this case, if you normalize the numbers, you get back to the classical level of performance that you used to see in Italy.

And then I would say the rest of the OEs are really delivering good performance. So from that point of view, you see a lot of nice combined ratio. Also, let me say, United Kingdom, 96.6% in this environment is definitely a good starting point, and we expect to get better from there. Spain at 95% is also a very good number also compared to what is happening in the market. And then you have some companies performing very nicely like Australia, Allianz Trade and then AGC&S, again, at a combined ratio of about 90%. So this is becoming basically baseline performance for AGC&S is not just a quarter, but that's the current expectation performance for AGC&S. So a strong picture and a strong portfolio, which is very important.

And now we can move to Page 17, where we see also that the investment result is up significantly by about 20%. That's not surprising because clearly, we see a nice lift coming from the interest rate level. And if you look at the right side of the slide on the upper end, you can see that the economic investment yield went up from 3.5% last year to 4.7% this year. Actually, we are not showing here the 2021 number. But in 2021, that number was only 1.3%. So we went from 1.3% of our investment here to 4.7%. And you need to think that in this segment, we are investing EUR 20 billion per annum of investments. So that's clearly be swing for the performance of this segment, and this cannot be neglected as we speak about inflation. You can see that we are reacting with rate increases, but you need also to consider that we are getting significantly higher investment income.

So in last year, as I'm closing on the comments for the segment, strong underlying combined ratio, also strong investment results. We had clearly an exceptionally high level of NatCat. We can have a long debate about what the right normalization for NatCat should be, but it's clearly now 7% per quarter. So from that point of view, we are very confident that on an underlying basis, even including a NatCat load or a conservative NatCat load, we are very much in line with our 93 combined ratio.

And with that, we can move to the Life segment, where we have also positive notes. When we look at the present value of business premium, it is up 7% compared to last year. If you adjust for FX effects, the number would be even slightly on the double-digit side. And so there's the first notes here. Then if you look at the quarterly progression in the first quarter, the present value of business premium was down compared to the first quarter 2022. In the second quarter, we had already reversal where the growth for the production was higher compared to last year. In third quarter, we had again this kind of trend where we see more growth compared to last quarter. So basically, we get into a trajectory of growth in production compared to what we saw towards the end of last year or the beginning of this year. So I think we are getting now into a different trajectory.

The value of new business, it's up 2%; if you adjust for FX, we are basically up 6%. So also here, you can see a nice dynamic compared to the numbers of last year, and it is clearly at 6.2% of new business margin that's definitely a very healthy level on the business margins. So we're totally happy with the profitability of the business. And now we see also the growth is coming back. Let's see what happens this next quarter. Now we had 2 quarters of consecutive growth. Let's see what happens in the fourth quarter. And if we have a good fourth quarter, we should be able to have a growth for the year compared to what we had in 2022.

On the operating profit side, Page 20 -- CSM, sorry, first at Page 21. The CSM just for making sure that we are all on the same page. That's the sort of present value of future profit. When you look at the CSM gross, which means it's before accounting for reinsurance, and that's also before accounting for the non-attributable cost. You can see that the CSM growth is going down. But that's due to a sort of reclassification between CSM gross and net. So when you look at the net, which is actually what counts from an economic point of view, from a shareholder point of view, the CSM net is actually slightly up compared to the level that we had in June. So that's the first one. So CSM is stable, slightly up.

The second point, the normalized growth of this CSM is positive at about 1%. That's slightly below what we saw in Q1 and Q2 or in the first half of the year, but that's normal because Q3 tends to have less production compared to other quarters. So the best view here is to look at the year-to-date number and with 3.3% normalized CSM growth, we are well on track to be in the range of 4% to 5%, which is our expectation for the CSM growth.

And the final point, you can see the economic variances are negative. But that's mostly due to the fact that interest rates went up and this is not a sign of having less profit. It's just a matter of discounting the profit. So basically, the present value of this profit is lower, but the amount of profit is actually not changed. I would even argue that safety of those profits is higher in a high interest rate environment, but then the discount is clearly going to be lower.

So all in all, I would say as you say in German, [Foreign Language], so everything is okay. And we are very happy again to look at these numbers because they give a good indication of how this present value of future profit is moving.

Now at Page 23, we continue the operating profit, which is, as I was saying before -- below the prior period, but that's because of the noise coming from the first time implementation, 2022. Actually, the best way to look at this number is comparing it to our outflow divided by 5 -- 4, and that's about 5% growth in profit compared to our expectations. So from that point of view, we see that operating performance is coming at least at the level that we were expecting to see when we put the plan together.

Page 25, we had a view by companies. I will not spend too much time on the details also because there is this noise in the comparison to prior period coming from the first time implementation. But I can tell you that basically, what we see also on the OE level is very much in line with the expectation of performance for the single OE. So also here, no surprises. And the message is rather on the positive side as opposed to on the negative side.

All in all, a good present value in business premium, very solid new business margin. We see growth coming back in and the stability of the operating profit is there as expected and also the net CSM is going up a bit in the quarter.

Now we turn to Asset Management. In Asset Management, the assets under management are stable at EUR 2.2 trillion. If you include also the proprietary assets, if you just look at the third-party assets, we are stable at EUR 1.7 billion, and we can move straight to the next page, which is 29, where we had the evolution of the third-party assets under management. And you can see here a EUR 10 billion or EUR 11 billion of flows. They are coming mostly from PIMCO. And that's basically the third quarter in a row that we see positive flows for a total, if you remember, of about EUR 30 billion for the 9 months. The flows are coming mostly from fixed income and partially also from alternative. Otherwise, you see also positive flows, especially in the U.S.

The other drivers like market movement and FX, that will offset each other, so basically growth that you see here in the third-party assets under management is all due to organic development.

Going now to Page 31. On the revenue, we see our revenue growth. Once you adjust for FX and also for the consolidation of Voya, you can see basically a positive development of about 4.5%. That's also driven by the amount of performance fees that we got in the quarter. But even if you adjust for that, you can see basically a flat growth in the [base's] performance fees and that's different from the picture that we saw in the prior quarter. So there is definitely a stabilization coming in because of the market development, which is a little bit more stable and also because we are posting positive flows quarter-over-quarter.

A final comment on the fee margin. This looks like lower compared to the prior period. But here, there are some technical effects like the number of fee days or in the case of AGI, the numbers were still included in Voya for a month. The best way to look at this number is to compare the fee margin to what we had basically in the prior quarter, so Q1 and Q2, and these numbers are higher compared to what we had in the first half of 2023. So also from that point of view, we see a stable margin. And actually, the quarter has been even a little bit higher compared to the -- to what we saw in the first part of the year.

Now we come to the operating profit, which is stable over the 2022 level. In the case of PIMCO, you see a growth in operating profit of about 2%. If you adjust for FX, the growth of operating profit is about 9%. Here, clearly, we were also supported by the performance fees, but at the end of the day, they are part definitely also of the performance of PIMCO. They are going to be increasingly relevant for the performance of PIMCO, so from that point of view, strong performance with a 9% adjusted FX growth of the operating profit.

In the case of AGI, we see a reduction in the operating profit, that's anywhere in line with our expectation. And I will say what is positive for AGI is the cost/income ratio, which is 66%. We like the expense ratio with AGI to be below 67%. We think that's an okay level, and we like the cost-income ratio in AGI to be potentially 65%. That will be a good level, with 66% we are very close. So we're already anywhere in an area where we feel that the efficiency is already at a good level, but clearly, moving to 65% seems to be very much at hands, and we are very confident that we can get there in the following years.

So from that point of view, we see stability coming through the asset management segment after a very challenging 2022, and we see positive flows at least until the Q3. And now we are still confident that we're going to see a good trajectory for our asset managers. Clearly, there could be some volatility in the quarters ahead. But fundamentally, the businesses are positioned for growth as the interest rate environment is stabilizing.

Now let's move to Page 37, which is the 35 -- that's corporate on this one is not to say that results are better than our expectation. And then we can move to Page 37, which is about the below the line items. Here, you can see the minus EUR 662 million of swing compared to the third quarter 2022. But that has primarily to do with the fact that in 2022, we had a big gain out of the disposal of AGI U.S. to Voya. So if you adjust for that, actually, the swing will be much less. The other positions are more or less offsetting each other.

So all in all, we end up at EUR 2.1 billion of net income, core net income. This is slightly below clearly our normal level of performance, but that is just because of the amount of NatCat that we had in the property casualty segment. So if you adjust for that, again, very strong underlying performance and also a healthy level of core net income.

And now we move to the last slide. Here, we are going back again to the 9 months view. To summarize the results of Allianz on a year-to-date view. We have growth in revenue. We have growth in operating profit. You should remember that last year, we had record operating profit. So from that point of view, we are well positioned to get to another year with record operating profit. The solvency ratio at 212% is very strong, and the sensitivity level has been reduced. And as you know, we got this upgrade from Moody's. So we -- on the capital deployment, you can see here the EUR 1.5 billion of capital buyback that we are basically concluding as we speak.

I'd like to also remind that in 2022 in November, we announced a buyback of EUR 1 billion. So basically, in a period of 12 months, we have made buyback for EUR 2.5 billion. So that's a significant amount. And also, we have completed a small acquisition in Italy, so we have deployed EUR 3 billion of capital basically in the last 12 months. And as always, we try to combine buyback with also growing our franchise on a consistent manner.
So a lot of good news as you can see in the results. And we have 140,000 colleagues that are behind these great results. And so my thank you as always goes to these wonderful colleagues. And with that, I'd like to take your questions.

Question and Answer

Holger Klotz

[Operator Instructions] So our first question today comes from Michael Flämig from Börsen-Zeitung.

Michael Flämig

I have 3 questions, please. Mr. Terzariol, you said, we could have a long conversation about the right level of normal NatCat. The number in the first 9 months is even higher than the 2.5%. So what is the right level in the future?

The second one is with the operating profit target. What do you think, will you land in the upper end of this target range on the -- in the upper half?

And the third one, you made a cost detail, you made a cost correction in Life Germany. Could you explain this effect, please?

Giulio Terzariol
CFO & Member of the Management Board

So maybe let's start from the last one on the cost correction, that's sort of reclassification at the end of the day. That's the way I would explain it. So in a new account, we need to determine to split the cost between attributable costs, which are costs that are attributed to the product, if you want and overheads, non-attributable cost. And basically, this allocation has been changed, should have been different from the very beginning. So this causes just a reclassification. There is no impact on 2 things. First of all, there is no impact on the CSM net, which is the real economic view. But there is also no impact on policyholder because that's just a split that is done for IFRS purposes, but from a local account, from a policy holder point of view, in reality, all cost counts. So that's -- you can look at that as a correction of the right allocation of expenses between 2 different buckets. That's how we define it, and without the economic consequences for any stakeholder. So that's on the cost correction or reclassification for Allianz Leben.

On the amount of NatCat, okay. So that's how much would be the load. I can just tell you that's always a little bit of art as opposed to be a science, although we have a lot of scientists, obviously, in Allianz, and we are not far away from [uniquely], so we can also talk to them. But eventually, nobody really has a crystal ball to say what NatCat loads. You are right. The NatCat load is this for the 9 months higher compared to the 2.5%. Also, if you check last year, and if you check 2021, you end up usually about a 3% NatCat load. So there could be a suggestion that there could be a level to consider. Indeed, when I was mentioning the normalization before, that I was doing where we get back to 93%, I was using 3% as a load for NatCat. So that could be a good way to look at that. And assuming this 3% level, we are basically, as we speak, already at about 93%. You should also keep in mind that in the last year, we went up with a NatCat load.

So we've been reacting always to the experience that we were seeing. And most likely, we are going to again react to this to what we are observing right now. We are not speaking in way of percentage points, we are speaking if you want to basis points. So you need to put things into counter. So having 3% instead of 2.5% is now going to delay the strategic plan or the performance of Allianz. So that's all very, very manageable.

Your last question about the outlook. I would say we are pretty positive that we're going to end up in the upper half. The only point is we see some NatCat activities. And so we want to be cautious because we don't want to send a signal that we might end up significantly in the upper half where we might end up more moderately in the upper half. So that's the only reason why we decided to be on the cautious side. But mathematically speaking, it's very hard to imagine that we are not going to be in the upper half. We just need EUR 3.2 billion of operating profit. Mathematically, we are already EUR 14.2 billion. So it's just a matter of signaling that's due to the NatCat elements we are going to be in the upper half but at what level is something that we need to see. That's okay?

Holger Klotz

Our next question comes from Ben Dyson from S&P Global.

Ben Dyson

I've got a couple of questions, if I may. I just wanted to ask, first of all, about the amount of NatCat on the P&C side in the third quarter. Interested in this EUR 1.3 billion, I just if you can sort of state what the biggest contributors to that were and what the amounts were if possible? And also just further on the NatCat, whether how much of that is down to changes that the reinsurers have been making and Allianz retaining more and whether this is going to affect your reinsurance buying strategy? I'm sorry.

And the second question I had was really around fixed index annuities in the U.S. because the U.S. Department of Labor is proposing changes to the definition of investment on vice fiduciary and they are particularly concerned there I think about advice given in the index annuity market or I think Allianz a market leader. So just you have any comments on what you think about the Department of Labor's proposal there and whether those proposals if enacted would have any impact on Allianz's sales and the fixed income annuities in the U.S.

Giulio Terzariol
CFO & Member of the Management Board

Thank you for your question. So the first question was because it was not always easy to understand you because the line was breaking up a bit. But I understand the first question was the sort of split of the NatCat. I can tell you between the different drivers. I would say we had a lot of activity between Italy and Germany. Then we had also some activity in Austria, we had also a little bit of exposure from Hawaii. But I can tell you, in Germany, we are running out of name. We had [indiscernible] So there were a lot of activity. And the major one was the Storm Dennis having with about EUR 330 million. It might be even a little bit higher than that. So we are speaking of about EUR 400 million just coming from that event. And then we have other sequence of smaller events. And then Italy was also contributing when you put altogether to above EUR 400 million.

So what happened this quarter was a little bit different. You don't have maybe the major super NatCat, but we had a frequency of a lot on NatCat and some NatCat were midsized. So -- but if you ask me, the biggest event that we had was on August 24, and that is called Dennis is having here you need to think about EUR 400 million of impact coming from that and then consider a lot of hailstorms in Italy, in Germany or smaller one. So the issue was more of the frequency as opposed to be the severity of 1 or 2 single events. So that's on NatCat.

On the reinsurance, what is going to happen? That was your question, I understand. I will say the following. So first of all, as you see, reinsurance companies are making good money right now. So from that point of view, I would not expect that insurance companies are going to go higher with the price, it was already a bit changed in pricing capacity in 2022. So from that point of view, I think that the market is going to be pretty stable. As far as Allianz is concerned, we are not seeing a lot of losses to reinsurance companies right now.

So I expect that we are going to be definitely capable to renew the program at this level in 2020 -- for 2024. And then also, I would say -- always consider that assuming the price environment gets more complicated, we are a well-diversified business, both in P&C, where clearly we could also potentially retain in reality more risk. And then we have also diversification with life and asset management, and there is now correlation between NatCat and Life and asset management. So from that point of view, we can -- if the price for ceding risk is getting too high, we can always -- we have always the option to retain the risk and make some money in house. So from that point of view, we are very confident about our position as we go into the negotiation.

And then one thing. Yes, it's possible that we need to think differently about NatCat, and that's also what we do. But the reference point is now the 7 percentage point of the quarter. It's more about thinking about the 3 percentage point year-to-date. So we need to put things into context. Again, we are not speaking of percentage points. Eventually, we're going to be speaking about let's say, basis points.

And the DOJ. Oh, DOJ. So DOJ, yes. Sorry, the Department of Labor. I was in Allianz Life back in the days. And when I was in Allianz Life, there was before 2016, we had similar conversations about the Department of Labor and what the implication for fiduciary due to all these kind of things are. So from that point of view, it's not necessarily no conversation, let's start from there. So it's something that the organization knows. It's also something where, as an organization, we have always been preparing because at the end of the day, we put suitability front and center, with the way we ramp business. There was always a big important topic for Allianz.

And so from that point of view, we think our market practices or sales practices are definitely of high quality. So if something is changing happening, I see this not as necessarily modifying the way we do things, but this creates more bureaucracies, sometimes more cost. So I would say that was the concern at that time when I was in Allianz Life, the concern was not that fixing this annuity are now going to on the shelf of our distributors because fixing this annuity are definitely fulfilling a purpose that the customer needs. The concern was more about the amount of additional cost that you might have in order to ensure this kind of compliance or suitability according to some specific regulatory standards.

But from a practice point of view, I will say that this is something which is clearly already very high on our agenda. We say fixing this annuity only to customers that for which -- for them is that the product is suitable. And also clearly, we make sure that our distribution has the right qualification training.

Holger Klotz

Our next question comes from Herbert [indiscernible] .

Unknown Analyst

Three questions on Page 3. When you break down the combined ratio for Property-Casualty, You say that it has worsened by 0.5 percentage points. But that the NatCat was less of an impact than the year before. And most of the impact came from less reserve releases. Now is that a result of inflation and you having to strengthen reserves in motor and other lines? And do you expect more with inflation biting in reserve strengthening. How will that impact your profitability in the medium term?

My second question, Page 15, you show that German property casualty has 0 profit in the third quarter. And you mentioned the number of storms that hit especially in German operation, perhaps you could give us the names and the figures for the 2 biggest again because I fail to understand that.

Third question is what the schedule for your -- for you handing over to your successor? And when will you sadly be leaving Germany?

Giulio Terzariol
CFO & Member of the Management Board

When to leave Germany? When I'm going to leave Germany? Oh, okay. So maybe let's start from the last one, I'm going to be moving in January, but I will not leave Germany. Germany is a very nice place. So I'm going to -- we are pretty rooted here in Germany, also with my family. So I'm going to move to professionally to Milamba. I will still be around here in Munich and -- so from that point of view, I'm not really leaving the country. Let's put it this way.

On the other one, I would say it's on the -- for my successor, she is -- by the way she is here right now. You're going to hear from her at the end of the conference. And then clearly, we are working very closely together, and she is going then to be the CFO starting January 1. I would say she's already the CFO now. So I'm reporting to her as we speak. I'm just kidding.

On the natural catastrophe, I would say the first one was [indiscernible] Dennis [indiscernible] and the second one, which was I would say, about EUR 400 million of impact. And the second one is [indiscernible], and this had an impact of about EUR 100 million plus. So these are the major.

Unknown Analyst

Dennis is EUR 300 million?

Giulio Terzariol
CFO & Member of the Management Board

It's almost EUR 400 million.

Unknown Analyst

And the second -- and the name of the storm was [indiscernible]? [indiscernible]

Giulio Terzariol
CFO & Member of the Management Board

Yes.

Unknown Analyst

That's EUR 100 million?

Giulio Terzariol
CFO & Member of the Management Board

One was on the 24th of August and the other one was on the 13th of August. Yes.

Unknown Analyst

And that was EUR 100 million net?

Giulio Terzariol
CFO & Member of the Management Board

Yes, if you want to be precise, EUR 109 million.

Unknown Analyst

Thank you.

Giulio Terzariol
CFO & Member of the Management Board

Yes. And then you had a question about the combined ratio for the 9 months. I would say when you look at the 93.5% combined ratio, it is pretty much in line actually with our expectation because you were comparing to the prior period. I like always to compare to expectations. So the 93.5%, it is basically very close to 93%. Now our expectation of 93% are set on a NatCat load of 2.5%. So if I go basically for the 93.5% and adjust for the 2.5% NatCat load, that will bring me basically below the 93%. If I use the 3.1% versus 3% then I am getting to 93.4%. The expense ratio is a little bit more elevated compared to our expectations. So from that point of view, we are going to be back to a level which is very close to the 93%, I was saying before.

From a runoff, you can see that we have less runoff compared to prior period. I think that makes absolutely sense in a situation where you have more inflation, you're going also to release a little bit more or less runoff. But the good news is you still see anyway that despite the high inflation, we had the capability to release positive runoff, this should tell you something about the level of conservatism which is in our reserves. That's okay?

Unknown Analyst

And the 9 months figures for '22 have been adjusted to IFRS 17?

Giulio Terzariol
CFO & Member of the Management Board

Yes, absolutely. That's all on the same basis, absolutely.

Holger Klotz

Our next question comes from Stephan [indiscernible].

Unknown Analyst

Mr. Terzariol just some question because I am slow for you and you are too much fast for me today. Perhaps just colleague asked about the profit guidance, I guess. And did you say the upper end of the profit guidance is possible or might be reached? I remember in August, you said it will be probably in the upper half. Just to be precise what is your expectation now?

Then on the P&C business, the price increase in Q3 was a bit more than 5%. In Q2, we had a bit more than plus 7%. So why are the price increases shrinking? Is this in respect to some markets? Or is it in your whole book? And concerning the losses, the NatCat losses compared third quarter 2023 to third quarter 2021 when the flood catastrophe in Germany happened. The NatCat losses are now twice as high. Did you retain more risk in your own books? Or are the whole losses so much higher? And what do you think now -- you said something about it to buy more reinsurance cover or let it be like it is at the moment?

Giulio Terzariol
CFO & Member of the Management Board

Thank you for your question. So the first point on the outlook, no, we are going to -- we are very confident because we are positive we're going to end up about the midpoint. So it's -- about a midpoint that you might have at the end of the upper half or in the middle of the upper half. So I would not say the expectation that we're going to be at the upper end or the upper half but we are going to be most likely in the upper half, so basically about the midpoint. So there seems to be, at this point in time, very, very, very likely. But yes, we need -- we see our NatCat, that's the reason why we don't want to set the expectation that we might end up at the upper end of the range. But definitely, we should be about the midpoint in the upper half. So that's on that question.

Then the other question was on the rate change or renewal. Actually, yes, you are correct. If you look at the 6 months figures, the rate change or renewal were slightly higher compared to the 9 months. But that's due just to Allianz Partners with the rate change or renewal went down. In reality, if you look at all other entities, you see stable change in renewal in Germany, you see even a lift in the U.K., you see a slight increase in France, an increase in Australia, a slight increase in Italy and increase in Spain and increase in Switzerland.

So from that point of view, in reality, we are speaking just of a mix issue, if you want, and there is a difference in rate changes at [indiscernible] Partners, which is not any way the business where inflation is representing a problem. In other countries where we need to react to inflation, the rate change on renewal, either stable or going up. And if you ask me, my expectation will be that they're going to continue to go up because fundamentally, we are geared to do some additional rate changes as we go into the end of the year and at the beginning of next year.

On your last question about -- so if you are taking more risk, yes. But this has nothing to do with the amount of NatCat load. So fundamentally, in the renewal program of 2022, reinsurance company went up with the attachment point. So you cannot buy reinsurance at the same attachment points we were buying before. That's a fact. And so from that point of view, there is a movement upwards. So from that point of view, yes, we are taking more risk. The reality is, even with the old reinsurance program, we would have the same amount on NatCat that you see because basically, we are not dealing with huge NatCat, which are hitting the attachment point, we are dealing -- even not the previous attachment point, we are dealing with more frequency of NatCat. So the fact that we had a EUR 1.2 billion NatCat load has nothing to do with the change in insurance program. That's just the way it is. That we are taking some more risk, if you want. That's also correct, but that's all marginal.

And as I was saying before, considering the size of our operation, considering the diversification of our operation, I will say, we are a very low-risk company. And don't forget in 9 months, EUR 11 billion of operating profit, record profit. So I will say that you need to put always into the right context. So from that point of view, I think we are in extremely stable company.

Unknown Analyst

Thank you. Just 1 additional question concerning the NatCat. You say Central Europe, we had Italy and we had Austria and then Slovenia and Croatia, is this right? Is there some markets where you are not very exposed?

Giulio Terzariol
CFO & Member of the Management Board

Yes, Italy for me is not Central Europe. But Italy, that's definitely. And then we had also Slovenia, Austria, we had also -- which was the same event. I understand. So we had also losses coming from there, but just -- we had also some losses coming from the U.K. We had some losses coming from France. So at the end of the day, it's a longer release of small activities. But philosophically, I would say the main activities were in Germany and in Italy. That's where you got the bulk of the NatCat load for the quarter.

Unknown Analyst

Can you split this up the 1.3...

Giulio Terzariol
CFO & Member of the Management Board

Yes, we can -- maybe less today. Here the numbers are in front of me, but we cannot start saying EUR 10 million here, EUR 5 million there. Holger can give you the number. Because here, we have really a [indiscernible] release. I start from -- I have all names that you can imagine in Germany. So Holger can give you the split because right now, just I can give you at least 15 numbers. So I don't think it's a but we do that. Yes, we do that. Absolutely. Yes. we can give you in all kind of slides and form and shapes.

Holger Klotz

Thank you Stephan. So you will get from me more details. Our next question comes from Stephan Kahl from Bloomberg.

Stephan Kahl

Also from my side. I have 1 question regarding buybacks. There are some speculation among analysts that Allianz actually might be abandoning those spot announcement of buybacks and move more to an annual disclosure of buybacks. We didn't see a buyback announcement today. So I'm just wondering, is this a sign of Allianz indeed moving to like yearly disclosures of buyback versus like having smaller ones maybe 2 throughout the year?

Giulio Terzariol
CFO & Member of the Management Board

Okay. Thank you for your question. So absolutely, I would say that will be our desire and wish to move the conversation more on an annual basis instead of having this conversation basically on a quarterly basis. I'll give an example. In May, just that you understand how it was. In May, we announced a buyback. The call we got in the morning was not about -- tell us about the buyback, it was about when it's going to be the next buyback. So that's exactly what we want to avoid.

I think on our side, maybe I didn't do a good job to put a sort of pace and rhythm. So we want to change that. So there is more clarity about when we are going to announce a buyback and we don't have this debate every quarter because that's fundamentally not a super healthy debate. What you can be assured is that we are going to deploy capital. So nobody here sitting on any capital, as I was saying just a few minutes ago, from November 2022 to now, basically, we deployed EUR 2.5 billion of capital. We have done also some small acquisition. We have also done some disposal here and they are very minor ones. So we are constantly moving the portfolio and we will continue clearly with a healthy policy of buyback and also investing in our business. But definitely, I think the idea is to start talking about buyback with pace, which is known to everybody instead of having this kind of conversation on a quarterly basis, that is not potentially the best use of our time and also of our investors' time.

Holger Klotz

Our last question comes from Maximilian [indiscernible]. He seems to have technical problems. Maximilian can you solve these problems? If not then, please send me your question, and we may make sure that Giulio will then answer them by e-mail to you. Sorry for that, Maximilian, but thank you for raising the hand. So that was our last, nonquestion, unfortunately.

Giulio Terzariol
CFO & Member of the Management Board

So since -- as you know, that's my last call with Allianz, I want just to tell you that been a pleasure really doing this quarterly call from you. And I found the interaction always to be very fair and constructive. So really it was a pleasure. So thank you really for that. And now I would like to introduce you to my successor, Claire-Marie. She -- just a few words. She's an actuary by training, she is a French actuary by training. She has an extensive industry experience. She did [P&C] and then she did Life. She was in a reinsurance company, doing capital management before. So she saw basically everything.

She has been in the last years the CFO of AGC&S, and if you see the combined ratio of AGC&S, it is pretty cool, actually. And that's clearly the effort of a lot of people, but Claire-Marie has been leading their epically together with [indiscernible] that effort. So I think that's a very good visiting card. And as you might know, I like to do [indiscernible] models on the weekend, that's what I like to do.

Claire-Marie likes to read science fiction book. And she told me she likes science fiction because she sees mathematical pattern behind the science fiction book. So both of us like math just in different shape and that's something good for a CFO. And the last point is she's a wonderful person. She is really a wonderful person, so I'm very, very happy that she's taking ownership of the finance function and which is clearly a function, which is very close to my heart.

And with that, Claire-Marie, I turn it over to you.

Claire-Marie Thomas Coste-Lepoutre
Head of Actuarial, Planning & Controlling and Group Chief Actuary

So thank you very much, Giulio. I'm actually quite moved because I was not expecting such nice words today. So thank you very much also from my end. You have been a great mentor to me for many years and I will really miss you within Allianz, but I'm also looking forward to the ongoing conversations we will for sure keep.

So now maybe to all of you. I'm very happy to have had the chance today to listen to the conversation. I'm actually really looking forward to further exchanging with all of you as I move into my new role as of first of January. And until then, I would like to thank you very much all again for attending this call.

And I hand over back to you, Holger.

Holger Klotz
Thank you, Claire-Marie. Thank you, Giulio. So this concludes our earnings call for today. We meet again for the discussion of Allianz fourth quarter numbers on 23 February. Thank you, and bye-bye.