S&P Capital IQ

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Allianz SE DB:ALV

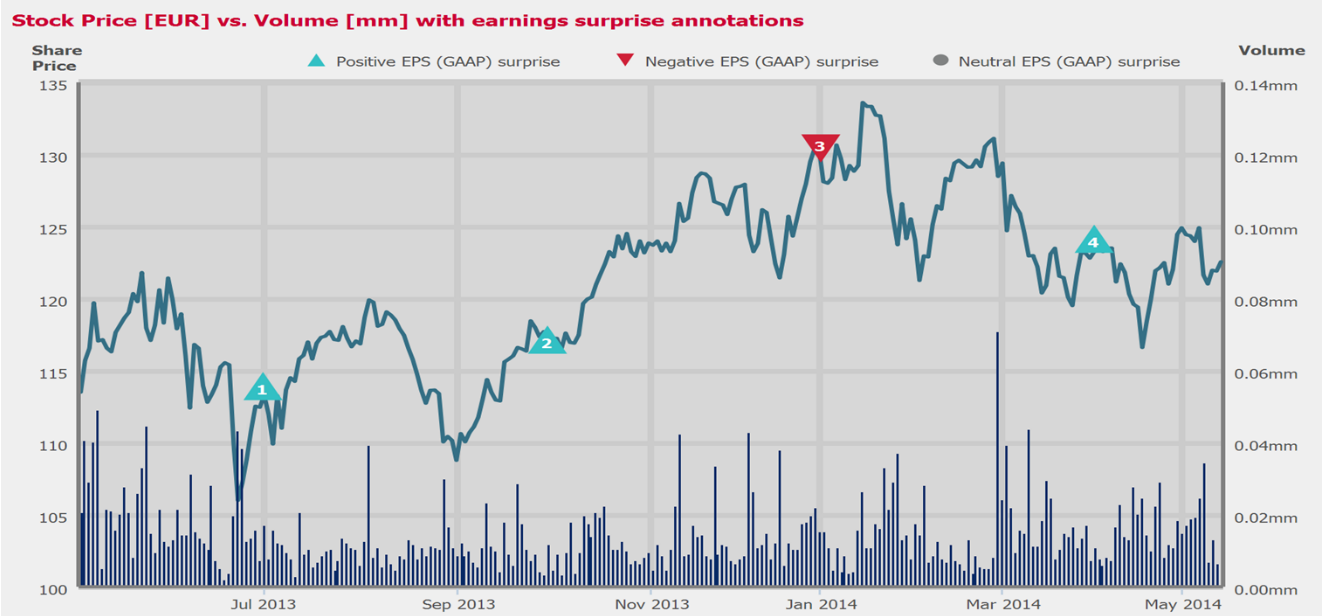
FQ2 2014 Earnings Call Transcripts

Friday, August 08, 2014 12:00 PM GMT

S&P Capital IQ Estimates

	-FQ2 2014-			-FQ3 2014-	-FY 2014-	-FY 2015-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS (GAAP)	3.37	3.84	13.95	3.20	13.82	14.13
Revenue (mm)	28007.33	29500.00	5.33	26728.00	115552.94	117846.06

Currency: EUR
Consensus as of Aug-08-2014 12:52 PM GMT



- EPS (GAAP) -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2013	2.97	3.47	16.84 %
FQ3 2013	2.74	3.14	14.60 %
FQ4 2013	3.10	2.72	(12.26 %)
FQ1 2014	3.28	3.55	8.23 %

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Presentation

Operator

Ladies and gentlemen, welcome to the Allianz Conference Call on the Financial Results for the Second Quarter 2014. For your information, this conference is being recorded. At this time, I would like to turn the call over to your host today, Mr. Oliver Schmidt, Head of Investor Relations. Please go ahead, sir.

Oliver Schmidt
Head of Investor Relations

Thank you, Rhonda. Yes. Good afternoon from my side as well, and welcome to our conference call about the results of the second quarter 2014. For the sake of time, I hand directly over to Dieter without further ado.

Dieter F. Wemmer
CFO & Member of Management Board

Thanks you so much, Oliver, and good afternoon or good morning to everybody on the call. Before I dive into the financial of the quarter, let me start with our business highlights page and a short view in the engine room of the company, which drives the results. I think we are making good progress on product innovation on the Property and Casualty side, as well as Life and Health.

I think in P&C, it's about really driving much more modular products for the retail segment, as well as digitalizing the access to the products.

Life and Health. I think when you see the high-growth numbers in the segment, it is coming from the fact that we have broadened the answer to the challenge in the life market. I think the traditional answer that -- in this time is you can only do unit linked in the risk products to create capital-light product, both extended by our hybrid products, and in particular in Germany and the U.S., they are driving a lot of successful quotes.

Asset Management. Allianz Global Investors had great inflows, highest inflow in their short history since they are working under this brand.

Investments. We continue to pop up our real asset investments by attractive investments because active investment process is, in these times of low yield, really the game.

Transaction. That is just an update. The UnipolSai acquisition had now its first closing. 725 agencies out of 729 actually signed a contract with us. So it is moving on as planned.

And in -- on one hand, to improve our scale in Belgium and Netherlands, we merged already the management responsibility there some 18 months ago, and now we have actually also added the first cross-border of the P&C entities, which is not only enhancing the management but also helping the capital requirement on the Solvency II.

And in branding, I think we are expanding our branded football and rugby stadiums by adding a stadium in Vienna that is now in a build phase, and the name Allianz will be then on the new stadium from 2016 on.

So all these activities, and that was just a short selection of the second quarter. What did it do to our numbers? We are really enjoying double-digit revenue and profit growth in the second quarter. Revenues up 10%, mainly driven by Life, and I will show you in more detail later. Operating profit, even 17% up. Next to P&C, actually Life was a substantial outperformer of the quarter. Asset Management, weaker than last year, but as expected for the year. And also, the Corporate segment supported with outperformance that we ended up the quarter with EUR 2.8 billion, almost EUR 300 million about (sic) [above] our pro rata outlook of EUR 2.5 billion. The great progress in operating profit translates then also into a 10% net income improvement. Here, the growth is smaller than in operating profit because we substantially had less realized gains than a year ago.

So how did the balance sheet develop? Actually, pretty much parallel, almost hitting also the double-digit growth in equity, where the payout of EUR 2.4 billion dividends during May actually stopped us from actually having also here more than 10% growth.

But the development of shareholders' equity and our top line and risk taking was very much parallel. You can see that the solvency figures in both measurements almost didn't move. And on our economic solvency, we are still including the sovereign credit risk, so unchanged measurement compared to Q1. When we would exclude the sovereign risk -- credit risk as some of our peers doing, we would have shown a 220% ratio instead of the 205%.

The dividend accrual continues to be at 40% payout ratio, and we are not changing the accrual until we had our announcement as promised in December, and then we will see how it is changing. And whether it is changing, we are not giving any firm guidance here. And I think after the Capital Markets Day that nobody actually should also expect that we would say today anything different.

P&C segment. I think I'm explaining here the overall numbers. I will then dive into the individual country numbers a little bit later on a new page we have introduced in the presentation. Overall, 0.9% net growth on the top line. FX, still a negative impact. Without FX, we would have seen 2.6% growth, of which volume effect is 3% and pricing is minus 0.4%. The pricing was very positively in Germany. It continues also to be positive in France. The U.S. also sees still pricing of about 3%, and Central and Eastern now within -- starting with a negative, that is Central and Eastern Europe. AGCS has still seen weakening, in particular in marine and aviation. However, with the tragic events around the Malaysian airline and then also the other 2 airline crashes we have seen in recent weeks, that could be the triggering point that we will see going forward, positive rate developments in aviation. The biggest negative number is Italy. It's minus 7% in the second quarter compared to the -- to a year ago. But it is not yet creating actually a lot of pressure on the profit line because when we now turn to the next page, our -- or maybe I'm completing it here, the Italian story. Our accident year loss ratio actually in Italy is still better than a year ago because severity, as well as frequency, are down on a Q2-over-Q2 comparison. So therefore, the price decreases is nothing to complain about. It's minus 2.2% negative growth in Italy, good or bad, while we expected the market at half year was at minus 4.5%. So we are still growing market share in Italy.

When we now go to the overall profitability -- and I have to admit that the combined ratio story is a little bit more complicated than in previous quarters because we have to sort out some effects. So let's take the simple reading combined ratio 1.5% -- 1.4% improvement. But when you look at the cat losses, down from 5.3% to 1.6%. That would mean an improvement of 3.7%. When you now subtract the runoff ratio, which is 2.3% lighter than a year ago, you end up, and to the decimal point, with the improvement of the combined ratio.

And in insurance, there's always a however, so therefore, I have to continue with the however. We have a 1.1% worsening of our large losses. So the little bit higher large losses are actually masking that our underlying attritional loss ratio improved by this 110 basis points, which I think is pretty much what our indication was during previous quarters, that we still have a very good run rate improvement overall. So it's a runoff ratio of 3.4%, disappointing. I will give you a little bit more insight into this in a moment, but let me first look at the operating results by OE and country. So the biggest positives being -- as Germany of course, with -- which had a lot of cat losses a year ago. And the improvements which we had the opportunity to present to you in our July 2013 Capital Markets Day, I think we have all outperformed any of the set targets. France is also a little bit down in operating profit. But actually, combined ratio in the second quarter was influenced by the storm Ela, which hit half Germany, half France roughly. Italy is mainly less runoff result or actually all less runoff results than in previous year. And AGCS had -- has a really good combined ratio despite that it had actually to bear all the additional large losses in the second quarter.

And I will then come to the next page, where we are showing a slightly different view and angle of the overall portfolio. We have split our portfolio into 3 groups. The one who outperformed in the first 6 months, because I think a combined ratio looking at single quarters only is not really making solid statements. Longer periods are also -- offer better insights. So below 95% as the first group, between 95% and 100% the second and then also, there is still not an empty box above 100%, but I will come to this one. Let's start with the best group that is 63% of our portfolio, with an average combined ratio of 88%. Big contributors are Germany, Italy, AGCS and of course, also the credit insurance. But there was not more room in the column, so I could only pick the best 3. And Germany had, really in the first half year, a 91% combined ratio. And actually, they did not benefit too much from the low cat events. The second quarter was pretty much consuming the normal cat losses. But what is really great here is the growth. We have 6% internal growth and over the half year, 3.3%, clearly outperformed the expectation. And our target for the year was a 26% expense ratio, and we are with 25.6%, clearly ahead of this one. Italy, I mentioned already that, despite lower rates, accident year loss ratio, including motor, is still improving. And AGCS, I think, has another very good quarter of -- or half year of good loss ratios.

The second group, 30% of the portfolio, with an average of 97%. U.K., you have just seen at the Capital Markets Day, half year, almost 10% growth. Actually in the second quarter, we had 15.5% growth standalone. France almost made it to the below 95% combined ratio group. But also, the other half of the cat loss in the second quarter stopped them to moving there, but I'm confident that they have good opportunities to move to the below 95% class. And AWP, as we also presented at the Capital Markets Day, that is, of course, the OE which is strongest focused on growth and also delivering it.

The class which I would like to have completely emptied by now, we have still 3 companies in the above 100% category. And as I said before, let me start with the runoff results. We are showing for the whole segment 3.4% positive runoff, and the 3 companies who are listed here are actually consuming 1 percentage point out of it. That means without reserve increases in Russia, U.S. and Brazil, we would have shown a 4.4% runoff result for the year -- for the quarter, sorry. And these 2 effects, the more large losses and the negative runoff of these 3 countries, are certainly, in fact, down on an excellent combined ratio. So you can also see potential upside for the future. So what is wrong with these 3 places? Well, Fireman's Fund is a true disappointment because the target of making a little underwriting profit this year is completely out of reach. We have 3 effects. There was already the bad start in the first quarter with weather-related losses. The weather-related losses continued in the second quarter. We were hit by 2 large settlements of individual large claims, really from the past, some 10, 15 years old. And thirdly, we have revised our accident year loss ratio assumption for the commercial business. And this, together with -- well actually, the negative reserve runoff were the 2 large claims I mentioned already.

Russia is -- the change in the right to litigate a motor claim that was some -- almost 2 years ago, the law changed in Russia. And in particular, the areas far outside Moscow and St. Petersburg are making heavy use of this option to sue the insurance company after a little car accident. And this has made the markets, I think, for all motor players very unattractive. And in particular, I feel that foreign insurers in Russia are getting the more difficult part in this game. And therefore, you see a withdrawal of foreign retail insurers in Russia to some extent. And we will also reduce our branch network substantially, and we have already started to reduce the branch network and will focus on the large cities only.

Brazil continues what I explained already in Q1. IT platform issues have not been fully resolved and have been added by a lack of pricing in the health segment, where the inflation has outgrown our pricing assumptions, so that we have now to deal with 2 issues: get the IT platform fully aligned with what a Brazilian broker wants to see in processes; and secondly, get the repricing of the group health portfolio down. But we have worked out a very detailed action plan already, and I think we are very positive that we can solve this problem ourselves without any help.

P&C operating investment results is holding up very well. I think also the reinvestment rate is even slightly higher than last year that our effects from, one hand, the U.S., but also some emerging markets and also a stronger shift to corporate bonds. And we have started, again, some months ago to buy Spanish government bonds, which we had spent for quite some time.

Now the Life segment. Strong growth, as indicated. Germany, very successful with our new hybrid products, but also with some standard single premium products and group benefit schemes, leading to 20% -- or 21% growth in revenues and 40% in new business premium. In Germany, our leading life company is then also representing the average of the segment, which shows that everybody else continues to grow strongly. In Germany, we are certainly grabbing market share. Please remember that on a business in 4 spaces, our market share is probably 17% or now -- by now maybe 18% of the market. Where in new business, I would not be surprised that we would go close to 30% in market share this year.

Italy, continued success of, on one hand, the unit linked, although the growth after the strong sales volume last year could not be repeated. But we kept the high volume unchanged, and then we had nonunit-linked business growth mainly sold through UniCredito, our partner in Italy.

The biggest sales success is our fixed-indexed annuity business. We have actually -- when you look at the internal growth figure, that means in U.S. dollar terms, we doubled our revenues in the U.S. and our new business volume grew 86%. So both are very strong numbers, and that is one fixed-indexed annuity product, which is exclusively using One Barclays index, which is a dynamic combination between S&P 500 and Barclays Aggregate. And that sells very well and is also a product which is not only good for the customer, but also giving us a 3.8% profit margin, which I will show you in a minute. Besides the big balance sheet, we should also not forget that, actually, Asia Pacific and Switzerland are also on a good growth in new business. Also, our German health business is back on track in growth, and also Central and Eastern Europe.

Before we go to the new business margin and volume, let's first talk about the operating profit. EUR 984 million quarterly operating profit, almost EUR 1 billion, actually, has never been reached before. So how did we do this in this difficult market? The big jump is in the investment margin. It's a plus of EUR 330 million. And to be very fair, I think in this result is about EUR 120 million of positive one-offs. And what I would actually do is when you compare second quarter '14 to second quarter '13, so it's a good EUR 300 million improvement. I have -- I'm memorizing these numbers, very simple. The whole difference, I cut into 3 pieces. The first 1/3 was a negative one-offs from last year, mainly losses -- foreign currency losses on foreign currency investments. The second 1/3 is really underlying profit improvement. And the last 1/3 are the positive one-offs of the quarter. So what are the positive one-offs of the quarter? So around EUR 120 million, half and half between Germany and U.S. Germany benefited strongly from its interest rate derivatives, which are, of course, were really increasing substantially with the bond going down in the second quarter substantially. Then the other point is we had some additional harvesting in Germany, but not on equities. We sold some old real estate buildings and -- as part of our normal renewal of our real estate portfolio. And in the U.S., there are -- there is mainly positive hedge results, which are the driver for the one-offs.

You can also see in this information that actually our risk margin went down by EUR 78 million. That is 2 halves of it: one is the change in the German law, which we discussed also at the Capital Market Day, which did cost us including the catch-up for the first quarter some EUR 40 million. That means, for the whole year, you have roughly to calculate that our technical margin compared to previous years is EUR 90 million lower. This has been compensated by more investment margin, as we are changing the policyholder-shareholder split on the investment margin in Germany, and that is also a sustainable change. So in total, our German customers are getting the same amount as before. Only the source of profit is shifting slightly between mortality and investment margin.

So now our value of new business. The value of new business is EUR 380 million. It's a substantial increase over previous year, so driven, of course, by 40% higher volume, but also by a nice improvement in the new business margin, which shows that our new product generation, and it is not only unit-linked and risk business, really addressing customer needs and are creating really sellable products. We had in the quarter, which I did not mention before, around EUR 4.2 billion, EUR 4.3 billion of net inflows, which shows that a substantial investment from the customer is going to our balance sheet. And also, the substantial volume of new business, of course, did cost something. I should have mentioned it. So the operating profit of the new business of the quarter was a negative of a bit more than EUR 60 million. That means probably without the substantial increase in new business volume, we would have ended up with EUR 1 billion instead of EUR 984 million.

So the investment margin. I think I have almost already explained that the combination of the negative and positive one-offs and base improvements that our new business margin moved up from 17 basis points to 25. So we have given so far, as a guidance, that the normal level is 75 for the year. I probably would increase it now closer in the direction of EUR 80 billion -- 80 basis points. What is also important to notice is actually the growth in our aggregate policy reserves. There is, on one hand, good interest rates, which is growing, but on the other hand also, the substantial net inflows. So that actually the basis on which we earn our investment margin is around 5% higher than in previous year. And 5% more base times a slightly higher investment margin results than also into a positive shift of our overall outlook for the Life segment.

Now let's come to the Asset Management category. In -- I think it is pretty much delivering what we believed in the beginning of the year and what we said with our outlook for 2014. We see good performance based on the AUM development. Sure, it's driven by positive market development. Outflows at PIMCO continue, EUR 20 billion in the second quarter. Certainly, still too much, however, less than in the first quarter. And Allianz Global Investors actually is showing really good positive net inflows. Overall, our assets under management compared to the beginning of the year are up EUR 40 billion on the third-party volume and substantially more on -- including our group assets. And actually, our group assets are benefiting here really from a good performance of our asset managers, and we are very happy with the returns, because that is certainly also a driver that we can speak more positively about the investment margin in our Life segment.

The revenues in Asset Management, based on the outflows of the last 4 quarters and all the development we have already discussed, they are 9.4% down in euro terms. Still, the bigger dollar consumed more. Because on a dollar basis, the reduction would only be 5.8%. So looking at the euro-dollar exchange rate, actually, the pressure from the dollar should go a little bit away. And I would expect a more positive contribution from the exchange rate going forward that would also take away the negative, which is so pronounced with the double movement of the underlying and the dollar so that we have then only to deal with the underlying. And with the underlying, I think we are dealing well. PIMCO's performance has recovered, measured as outperformance on the funds. The 12 months performance is at 83%. The 3-year performance, 89%, So that means short- and long-term measurements show really strong numbers. And also, the recovery here should help us to turn around the outflow or inflow picture going forward.

When we look at the operating profit, as I said before, operating profit is a target. We are quite happy with the EUR 90 million operating profit of Allianz Global Investors, in particular as it includes a EUR 20 million -- EUR 23 million one-off on nonincome taxes. That means, without the negative one-off, we would have clearly beaten the EUR 100 million mark for a quarter, and that is a very strong performance for an asset manager of this size. So PIMCO continues to deliver EUR 600 million. And actually, when you look at the operating profit, the EUR 600 million is higher than what we have seen in the first quarter delivered by PIMCO. So overall, I think operating profit is as expected, but it is not repeating the double-digit growth, what we all got so nicely used to.

Now finishing the presentation with a short look at the Corporate segment. There are actually 3 or 4 changes which influenced the EUR 50 million additional profit or less losses, to be more precise. We have less admin costs, actually EUR 24 million at the Holding & Treasury segment. We made EUR 23 million more investment income based on the cash we collected from all the countries. I presented you the cash flows and the excess capital repatriation program a few weeks ago at the Capital Market Day. A negative was that actually our centralized IT unit has charged out EUR 17 million less to all the countries. But I think that will -- that is just a delay between months.

The Banking segment slightly improved. That is more the absence of expenses due to the closure of Allianz Bank. So we have closed this negative operating profit contribution, and I think all the banks are delivering now a small positive profit and it is, I think, now back to normal.

So how are we then now translating the 17% plus in operating profit to the net income number? Our nonoperating items in total are minus EUR 39 million, so close to the 0 line. The realized gains are about half of what they were a year ago, so that means the result this year has less volatile positive one-offs than a year ago. The EUR 243 million this year is actually -- I think it's a good EUR 30 million from equity realization, EUR 33 million, and the rest is fixed income area that is mainly, in the P&C segment, playing the yield curve, while the EUR 33 million in equities is probably slightly below what you would expect long term from the equity portfolio we keep in our Property-Casualty segment. All the other numbers are pretty much normal, very low write-downs. And the income tax is still at our expected range, around the 32%, 33%, so nothing very special.

And with this one, let me just summarize. I think you'll see a great growth in revenues. Operating profit's clearly beating our own outlook. And shareholders' net income, hence, also substantially up. And that all was achieved with a strong capital and balance sheet growth with solvency ratios at the expected and reliable high level.

Our outlook overall, the EUR 10 billion plus/minus EUR 500 million, we still think it is adequate to keep it unchanged. However, we believe that we can reach the upper end of the range, which should not surprise you. And with this one, I would stop here and hand over to Oliver.

Oliver Schmidt
Head of Investor Relations
Okay. Now we have to take your questions.

Question and Answer

Operator

[Operator Instructions] And we will take the first question from Paul De'Ath of RBC.

Paul De'Ath
RBC Capital Markets, LLC, Research Division

A couple of questions, please. Firstly, on the P&C business. You seem to have got into quite a lot of detail on the areas where you have strengthened reserves. I just wanted to check on that. How large are the reserves strengthening in each of those 3 areas? And the second part of that question, I guess, is on Russia. You said that you're kind of scaling back the operations there. What's your view on that? So I guess, longer term, would you ever think of just pulling out entirely like some of your peers have? The first question. Second question is on the Life side. And just a quick question on the duration of your liabilities. The duration seems to have gone up a reasonable amount in the quarter sort of over Q1. I'm just wondering if there was any reasoning behind that. Or if there's any more detail you can give on that, that would be great.

Dieter F. Wemmer
CFO & Member of Management Board

Okay. Thanks very much, Paul. I think the Life duration, that is a -- I think there's a great question and answer. But the duration, of course, is dependent on the interest rate level. That means when interest rates are where they are and we have -- mainly, our long duration comes from Europe. So therefore, it has to be lengthened with lower swap curve. On P&C. Well, I think when you look at the combined ratios of the 3 entities -- and I said that in total, 1%, that means EUR 100 million is spread over the 3 entities, I think you can almost do the math yourself. And I think that it's -- we are usually not giving runoff results on this detail level. It was only more for confirming that the positive runoff of all the large and successful OEs is running at a very good level and that we had, last year, a total absence of negative runoffs. But this year, we are showing it, and I believe we should be fully transparent. When we have soft spots in our portfolio, then we should talk about the soft spots. Russia, I think a complete pullout is not in our strategic direction. I think that is -- really, the issue is here that in the countryside, the interaction between courts, lawyers and the customers are, for us, too intransparent. Therefore, we prefer to stick to the areas where we better understand what is going to happen. And also, of course, Russia is under the caveat that we have now, all, to evaluate whether the European and U.S. sanction will, to some extent, limit the corporate business that is, as we speak, probably unpredictable. But long term, I think the situation is probably improving again. And then also, Russia is an important market for us for the large customers and our international customers, which are all doing business in Russia.

Operator

We will take the next question from Jon Hocking of Morgan Stanley.

Jonathan Michael Hocking
Morgan Stanley, Research Division

I've got 3 questions, please. I wonder if you could give a little bit of color on PIMCO. You seemed to be very confident that the performance is improving. I wonder if you could give some color in terms of how you're seeing flows with retail versus institutional and what the commentary you're receiving from institution intermediaries as to whether they're worried about performance, governance in PIMCO? That's the first question. Second question, I wondered -- you mentioned large losses, and you have specifically talked about Fireman's Fund. But I wonder, are there any other trends in large losses, either by country or line of business? Second question. And then thirdly, on Solvency II. You mentioned again in your economic capital numbers that you've included sovereign asset charges. What are your discussions with BaFin? Do you think this is going to be something which is going to be a fundamental part of Solvency II? Or do you think there's a chance you better reverse this from your final Solvency II calculations?

Dieter F. Wemmer
CFO & Member of Management Board

Okay, Jon. Just a second. You were so fast with speaking, still writing down your question that I'm not forgetting any. PIMCO. Actually, the biggest outflow number comes from retail, and that is very visible when you look at our mix. We had, a year ago, 35% of the business -- or the money was retail money, and now we are down to 33%. So that 2 percentage point shift shows that retail is still most of the outflows. Of course, there is also some institutional outflows, but I think institutional is less driven by PIMCO. It's much more when institutional investors decide that they do something completely different with their money. And there are 2 reasons a corporation could use the money for operating expansion. And if they do a total shift in asset classes, if somebody wants Japanese real estate, certainly, we cannot offer this from our 2 asset managers. So therefore, there is also sometimes that investors change completely their investment strategy. But overall, I think that the discussions with the institutional investors are still quite positive. And actually, Allianz is the largest institutional investor in PIMCO, with close to EUR 300 billion. And I can tell you our investment margin in the Life business would not look stable and good when they would do a bad job. That is PIMCO, and we are not -- we are also -- PIMCO is running a fiduciary obligation towards their customers and we do the same. And our Life managers could not stay with the PIMCO funds when it would be under pressure in the performance. And we have to play it here very much on slings [ph]. And I can tell you, we are quite happy with the development.

Jonathan Michael Hocking
Morgan Stanley, Research Division

So you're comfortable that it's not just the institutional clients reacting more slowly to the historic performance issues in the last few quarters?

Dieter F. Wemmer
CFO & Member of Management Board

Well, that -- I cannot exclude it because I'm not speaking to every institutional investor. So -- but I think, in the end, it is about the true performance of an asset manager. And the institutional investors are usually much more rational when doing their investment decision. I think a retail customer is not the only one influencing the decision. There is also always an advisor in between. And usually, switching funds from one firm to another is, for the advisor, usually a good job. I forgot the large losses. Sorry, Jon. The large losses is -- that is pretty, pretty easy. I don't think that there is any trend. We had at AGCS 2 big losses. One was -- well, actually, 2 are -- well, both are related to the oil industry, one in Far East Russia and one in another place. So that are the 2 big individual losses. And I would take this as not business as usual. And on Solvency II, your question on the sovereign bond, I assume that there is more a trend in the EU that sovereign risk would be included. So I think the whole -- overall judgment goes more in trend to include it and not to exclude it.

Operator

We will take the next question from Farooq Hanif of Citigroup.

Farooq Hanif
Citigroup Inc, Research Division

The first one, just on what you mean by the sovereign charge. Is this the same as the 10-basis-point deduction from swaps? Or is it a specific charge for spread risk in government bonds? I just want to understand exactly how it's working. That's question one. Secondly, in light of your still strong economic capital position, can you talk about the asset allocation shifts you would be making to counteract the low yield environment? And related to that, can we, therefore, expect the actually realized gains in harvesting as part of your operational results in Life could be something that we continue to see for a while in your numbers?

Dieter F. Wemmer
CFO & Member of Management Board

Farooq, yes, I think that a stable harvesting is certainly what we want to achieve. And I can maybe give it in more detail on the P&C segment because there, the calculation is easier as we don't need to split it with the policyholder. We have roughly EUR 6 billion at the moment in equities in P&C. And of course, I'm not talking about it whether we would increase it or decrease it, because that would potentially influence the market. So the EUR 6 billion should allow us to create EUR 180 million to EUR 200 million a year on realized gains only in this segment. And when -- you'll see that we had included this quarter only EUR 33 million, so that is certainly below a long-term average line. So that part I would see continue. And I think on the bond portfolios, as long as the steepness of the interest rate curve is not changing, I see also a continuing of our realized gains on the debt portfolio. Our other investments, that will take more long term because what we are expanding currently in real estate, we are not planning to turn these buildings around in the short term, that are more longer-term developments. And the infrastructure investments and our investments in wind parks, that is mainly held to maturity of illiquid assets that is just supporting our base investment income, which I think is also holding up nicely.

Farooq Hanif
Citigroup Inc, Research Division

Can I just interject very quickly on that? I mean, are you assuming that this is going to use up economic capital or is the economic capital neutral to everything you're doing?

Dieter F. Wemmer
CFO & Member of Management Board

We have allocated more economic capital over the last quarters. On the other hand also, our overall risk management has actually also freed up economic capital. For example, when you're lengthening your asset duration and you reduce your gap, then you free up economic capital. And this freed up capital, we have then reinvested in more risk-taking. So therefore, lengthening of the portfolio is, on one hand, consuming risk capital, on the other hand, freeing up. So therefore, it's probably allowing us to create more spreads without using up capital. And your sovereign risk charge, no, I think on sovereign bonds, what we have included in our calculation is going full distance. That means spreads, defaults, migration, risk, all included, like a corporate bond.

Operator

We will now move to Andrew Ritchie, Autonomous.

Andrew James Ritchie
Autonomous Research LLP

Just one question, following up on the last question. I'm slightly confused on the new -- on the reinvestment strategy in P&C. It sounds like you're encouraging us to think that you are going to continue with high levels of realized gains on bonds. Surely, that will accelerate the running yield decline. I'm not sure how that generates economic value. So what exactly are you doing on the reinvestment side in P&C? And why -- when you said you're playing the yield curve, are you seeking to buy longer duration and sell short? Or just -- I'm confused. To clarify that would be helpful. Secondly, in your introductory remarks, you used the phrase not yet in reference to Italian P&C profitability, as in it had not yet deteriorated. Are you expecting that -- this year, do you have any view on whether frequency and severity starts to normalize a bit or whether we'll start to see more of an impact of lower rates coming through, lower pricing coming through? And then a final question. In the U.S., you talked about you had changed accident year loss picks, as well as prior year reserve issues. I mean, that often is an indicator that you might start to look at reserves in general again. So is there going to be a more reserve review of Fireman's Fund in the second half?

Dieter F. Wemmer
CFO & Member of Management Board

Okay. Starting with P&C, I hope it was not too confusing. But actually, when you have a bond which still has a 3% coupon and that was a 10-year bond and it is now approaching the last 2, 3 years, the total return you make in the last 2 years of a bond is well -- is 0.3%, 0.4% or something like this. Because the..

Andrew James Ritchie
Autonomous Research LLP

Because they're pulled to par?

Dieter F. Wemmer
CFO & Member of Management Board

Yes. But still, you are not earning anything anymore in the last 2 years. Therefore, it would be completely wrong to wait the last 2 years of a maturing bond. You better turn it around and reinvest it in a longer-term bond. That is pretty much because you are economically keeping the money for 40, 50 basis points in the last 2 years. So why would you do this? Because you can -- there is -- when you go again 7, 8 years, you are still getting more than 40, 50 basis points. Sure, that is a -- a total of value and market value consideration. It is not the consideration only of running yield, but I think you should also see that, in total, we can also, with the strategy, afford to create the realized gains because our running yield in P&C stayed pretty much up.

Andrew James Ritchie
Autonomous Research LLP

What are you -- you're reinvesting longer duration, though, than you have been.

Dieter F. Wemmer
CFO & Member of Management Board

Yes, yes, well, I think you have a bond which matures in 2016 and you sell it now because the last 2 years you are earning -- you have a decline in market, as well as [indiscernible] the coupon, so the net-net out of the 2 is 40 basis points. And instead of cashing in the 40 basis points of the last 2 years, you are now reinvested still at 2.5% or 3%, and that is the additional value you are creating by this activity.

Andrew James Ritchie
Autonomous Research LLP

Okay. I might revert...

Dieter F. Wemmer
CFO & Member of Management Board

Are you doing something different with your own portfolio?

Andrew James Ritchie
Autonomous Research LLP

I mean, you're reinvesting at lower rates so...

Dieter F. Wemmer
CFO & Member of Management Board

Yes, but the total value you get out of both is still -- if you add both sides of the equation, you get more than keeping it.

Andrew James Ritchie
Autonomous Research LLP

Okay. I will revert offline on this one.

Dieter F. Wemmer
CFO & Member of Management Board

Yes, yes, I think you need investment advice.

Andrew James Ritchie
Autonomous Research LLP

I guess, I'm just interested, what are you reinvesting in the P&C? Obviously, you're not investing in German bonds at this point...

Dieter F. Wemmer
CFO & Member of Management Board

No, German bonds are actually, at the moment, blacklisted not because we are not [indiscernible] country, but with 1% return for 10 years, we are absolutely not happy with the 1%. We have -- we are certainly more reinvesting into corporates than before. We have also -- we have opened up again a little bit up our investment into Spanish government bonds, so which also helps our average, and that is, I think, the main change on the P&C side. And we have, over the last 2 years, increased slowly, but also supported by market, is equity allocation. So Italy, the words not yet, and maybe I need English training, instead was only referring to the fact when people are seeing renewal rates are 7% down, that actually our accident year loss ratio is still improving and I'm not linking the severity and frequency improvement to the Italian economy. I think that's still our continued selection in the agent channel. So certainly...

Andrew James Ritchie
Autonomous Research LLP

So it's a structural, not a cyclical?

Dieter F. Wemmer
CFO & Member of Management Board

Yes, and -- but I think we have to be very careful. Certainly, the Unipol portfolio will not come in at the same average combined ratio as our current Italian portfolio. And that is -- if you look at the pricing of the transaction, then Unipol would have done a very bad deal when they would sell an 80% combined ratio business at such a price. So therefore, there will be in mix, certainly, a higher combined ratio in Italy at year end, but we will disclose completely what is old portfolio, what is new portfolio and what are the mix effects. And in the U.S., certainly, U.S. reserves have to be reviewed very carefully every year. But when we would have today any indication for increased reserve needs, then we would have booked it. If it is different in a few months, then we let you know.

Andrew James Ritchie
Autonomous Research LLP

So you've increased, to be clear, the current accident year loss picks, is that right? You said, I think...

Dieter F. Wemmer
CFO & Member of Management Board

Yes, and we increased -- I think the underwriting improvements which were planned were not achieved in this way, and therefore, we took a more conservative step.

Operator

We'll take the next question from Michael Huttner of JPMorgan.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

Two questions, please. On the Russian and Brazil and U.S., you said EUR 100 million roughly is the reserve amount. And that worked out, I'm really good at math here, so I'm joking, that the total underwriting loss to those 3 countries was around EUR 200 million, I think. The right figure was about EUR 185 million. So it implies there's also EUR 95 million in terms of -- there's still above 100% combined ratio for those 3 countries. Can you give -- can you talk -- that's a little bit more because reserve additions plus actual claims. I know you mentioned to Andrew Ritchie that, yes, the U.S. is [indiscernible]. It seems weird. Normally, it's either one or the other. Here, we see both and I'm just wondering a little bit what is happening and what we could expect from next quarter here. And on the other thing, on -- you mentioned on the dividend, December. I thought the decision would depend on the Solvency II and that could be in November, but I heard you say, and I may be wrong, December, and I just wondered if you could just comment on that.

Dieter F. Wemmer
CFO & Member of Management Board

You are giving me all a hard time today, so I thought that with such great results. The -- starting with the P&C, yes, it is true the run rate of the 3 is above 100% also on an accident year combined ratio. And in the U.S., we had the weather-related impact and then the, what I said, the change in loss picks for the accident year. So both are resulting in a combined ratio above 100%. If you look at the half year -- or the second quarter combined ratio for Russia, it is 160%, if I'm not mistaken, 165% precisely. So that is also at -- it's absolutely not making money. And in Russia, the retail, the third-party liability premiums for motor are defined by the government. So you cannot change your pricing. If you could change your pricing, the Russian market would be easy. I should have mentioned this, that this is a fixed tariff. So therefore, in the end, the only thing what you can do is close the shop and don't write new business until the pricing and the losses are in balance. So I think that is the more important point. And then the dividend, we said always somewhere at year end we will tell you what will be the new number for the year. I think we have all understood your expectations. You have all seen that we have a range of options and I think we come together at year end. So Solvency II numbers are probably, at some point, stabilizing. There is -- beside Solvency II, we are also a systemic important company. There are also some capital requirements coming from this calculation. So we have to take a decision here at some point and see how we can work through it.

Operator

We will now move to Thomas Seidl of Bernstein.

Thomas Seidl
Sanford C. Bernstein & Co., LLC., Research Division

I have a lot of questions here. On the P&C side, the rate changes have come down again this quarter. I think we are now at a level where this is below where we expected inflations. Is it fair to assume that the P&C segment, hence, has reached a certain peak in terms of performance here? Secondly, on the Life side, you mentioned this enormous growth. I wonder, as the CFO, don't you get nervous when you see such enormous growth rate in a mature market? And what makes you comfortable that Allianz is not suffering what is called the winner's curse here? And thirdly, on Yapi Kredi, there is a quite substantial drop in volume on the nonlife side. I wonder, would you buy Yapi Kredi at the same money that you bought it for, and hence, should we expect some goodwill impairment? I think it's EUR 220 million up on Yapi Kredi.

Dieter F. Wemmer
CFO & Member of Management Board

I'm happy to start with Yapi Kredi. I think we are far away from a good goodwill impairment. Certainly, the Turkish P&C market was always very sensitive to underwriting profits. And remember that over the long run, Allianz and Yapi Kredi were always a winner in this underwriting game. And when the market is, in some areas, too soft, then we have just to be careful with writing new business. And I think the profitability is more important, but what has really made up for it is the substantially higher investment income, which is -- I think we calculated the transaction with a 6% yield and Turkey is, I think, in the double-digit area for -- even for short-term money. On the Life side, yes, certainly, in the German markets, it's a flight to quality. I think in Germany, all our products are priced very sensible. I think we are only promising what we can really deliver over the long run. I can tell you that the regulators, and as part of the systemic process, they are all over us with long-term scenarios and calculations. So that means our knowledge of scenarios and long-term risk is substantially higher than it was in the past. So we are also learning with these processes, but the learning is very positive in the sense that we are maybe even more confident on our Life business than we were before. And look at our reinvestment yield, which is very stable year-over-year. So -- and the risks we are taking, I think we are still comfortable from a risk management point of view. The other big growth driver is actually U.S. There, we are selling, in principle, one product that is one fixed-indexed annuity special product. I think we have done all our testing. We have looked at it. Nobody got very nervous over this product. So as long as we can sell it at these large volumes -- and actually, the scale effect is very positive. I did not mention this, that U.S. improvement in new business margin is driven, on one hand, by the pricing and the market impact, on the other hand, but also by the volume impact. We are clearly now -- instead of having an expense overrun, we have an expense underrun, which, of course, helps the new business margin. The P&C rate changes, yes, they have peaked, on average, in the portfolio where Italy is probably the biggest contributor at the moment. I think that will also come down at some point in Italy. And I think that when I look at the aviation market, that would be, for me, the area where probably the first positive rate changes will take place this year. Aviation is an interesting line of business. We are, I think, overall probably the largest or at least one of the market leaders. The rates went down since they peaked after World Trade Center event. So we have seen a slight decline in aviation rates for more than 10 years by now. And I think 2014 is certainly a triggering event with -- not only with the tragic events around Malaysian Airlines, also with the other crashes we have seen in the last months, that aviation rates are probably going up. So it is a mixture. I think we can drive our profitability. And I think the biggest improvement area is, for me, actually the 3 highlighted countries, where you are rightfully asking a lot of questions around. But actually, what was more the idea is that we are actively managing our overall portfolio and we are not shying away from the soft spots and share with you what we are going to do.

Operator

We will now move to William Hawkins of KBW.

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

Not having to go at you, but coming back to Fireman's Fund. Can you just clarify a bit more what you mean in the slide by accelerated improvement plans? I mean, you've given us some information, but my feeling at the end of the first quarter was that you were very clear that there was a cost overrun problem in the U.S. and that was what was being addressed. You haven't even mentioned cost this time when you've been talking about the U.S. And so it seems like much deeper problems have emerged. So I mean, in that context, can you just tell us what you mean by accelerated improvement plan? And then secondly, again, the aviation losses in the third quarter, is there any figure or a sort of range that you could give us for what those might mean for Allianz?

Dieter F. Wemmer
CFO & Member of Management Board

Yes, William, happy to start with the aviation loss this third quarter. This tragic situation in Eastern Ukraine, where the plane was probably shot down, we are only covering how -- when it was a normal accident; when it was an act of war, we are not a member of the consortium who are leading the war coverage. So then we would only participate in the liability case and you can put a range about it. But it's an average large loss and nothing very spectacular. So say, in euros, I don't know, maybe between EUR 20 million and EUR 30 million. And actually the other aviation losses, we have a very, very tiny participation in it that would not even make it to a midsized loss. So Fireman's Fund, well, accelerated improvement and management action means, to me, to look at all levers and do whatever you can do. Therefore, expenses are not excluded.

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

But just to be clear again, I mean, you've answered this question -- you've had this question a couple of times, but this is now no longer an issue of just expenses. We are back in underwriting and reserving problems as well.

Dieter F. Wemmer
CFO & Member of Management Board

So reserving, maybe I have not explained this well. The reserve increases were linked to 2 large losses. So it's not that, and actually, we looked at it. No, the lawyers settled 2 large losses and the lawyers did not look at the actuarial papers before, and therefore, we are now paying more than what we had in the case reserves.

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

Okay. So I think you've -- again, in comment to another question, you're not shifting to a view where there may be a systemic problem with the reserves in Fireman's Fund.

Dieter F. Wemmer
CFO & Member of Management Board

No, I think we had a review in the second quarter of asbestosis and environmental, so that has been reviewed and also revised. That is P&L neutral because we are keeping high asbestosis reserves at the center. And that is an expected development in the U.S., and that part is, therefore, neutral for Fireman's Fund.

Operator

We will now move to Nick Holmes of Societe Generale.

Nick Holmes
Societe Generale Cross Asset Research

Two questions. First is with U.S. Life. Wondered, can you tell us more about the risks with the fixed-indexed annuity product? In particular, how worried are you that you're putting on a lot of interest rate risk? Because I think that is the principal risk with the product. And indeed, I mean, you're selling the product because basically you expect rates to rise. And the second question, just looking at P&C and the expense ratio, there's been a bit of improvement in Q2 and I just wondered if you could remind us how much further improvement you think is possible.

Dieter F. Wemmer
CFO & Member of Management Board

The last question was improvement on what?

Nick Holmes
Societe Generale Cross Asset Research

Sorry, the P&C expense ratio. There was a bit of improvement in Q2. I just wondered if you could give us a bit more background about scope for improvement in P&C expenses, is the general question.

Dieter F. Wemmer
CFO & Member of Management Board

Well, I think the 30 basis points will be probably carried through, through the rest of the year, that were not one-offs. I did not mention that our net earned premium actually grew 3% in the second quarter versus 1% on the gross top line, and that is the reinsurance program, which we explained where we are changing our reinsurance purchases, so that we have a slightly better growth on the earned premium versus the overall premium, it's absolutely correct. fixed-indexed annuity products are not taking interest rate risks. fixed-indexed annuity products are not -- the deferred annuity component is absolutely cash-flow matched. Then there is this equity option or the option linked to the underlying fund that we are dynamically hedging. And actually, there are -- when you look at the whole space of fixed-indexed annuity players in the U.S. that are the 5, 6 companies that we had last year, the private equity guys who entered over 2 carriers to the market and they're also the players which are competing with us for a long time. I think we are the market leader. We had 16% market share over the last 5 years on average, I would say. We are probably, with the second quarter number, substantially higher in market share, that is my guess. And there are 2 options in the market. Some players are buying, with each tranche of new business, a fixed hedge in the market, and not touching the hedge at all over time. We are a bit more sophisticated in our hedging program that we run a dynamic hedge. And actually, also using a little bit the -- actually, the offsetting correlation between our VA book and the fixed-indexed annuity book, which allows us to be a little bit more efficient on the hedging. So therefore, we are not taking any interest rate risk with this business. Only when the interest rates are higher, the pricing of the product on the day of sale is easier. When you have 0 interest rate, then it is hard to split 0% between customer and shareholder. So that makes the pricing, of course, more difficult. And additionally, when hedging would become more expensive due to higher volatility or other market sectors, we have actually a variable expense charge in the product. That means on a 3-month basis, we could adjust our expense charge going forward to catch up with potential other costs in the hedging program. So I think that is a straightforward product. And as I explained, our fixed-indexed annuity product, the equity option we have to hedge is a mix of S&P 500 and Barclays Aggregate. There is also almost no base risk in hedging these 2 indices because that are the most common indices you can think of. So therefore, I'm pretty comfortable with the current product generation.

Nick Holmes
Societe Generale Cross Asset Research

That's interesting. Perhaps I can slightly rephrase the question, which is, with that fixed-indexed annuity book, what would your view of the impact of rising or falling rates, interest rates in America be? I mean, would it be if rates do rise, would you see that as positive, presumably your margins could expand? Whereas, if rates were to fall, would you think that you are completely hedged forever on this book?

Dieter F. Wemmer
CFO & Member of Management Board

Hedged in the sense of the business in force, yes. If we talk about future new sales volume, that has, of course, sensitivity towards interest rate markets. Although I think that this current index, which goes between S&P 500 and the Barclays Aggregate, I think that has a lot of elasticity, even if U.S. rates would continue to fall. If interest rate's going up, I think then the pricing of the new business volume is any way easier, and the attractiveness for the customers comes very well. And worst case, our new business margin goes slightly backwards from the 3.8% and that is still then a very profitable book, which generates profitability, which enhances our overall segment profitability. So underlying year-over-year, I think the new business volume of the last 12 months has probably created some EUR 50 million, is clearly EUR 50 million plus in operating profit. And what you have to consider on a fixed-indexed annuity policy, the customer pays in the cash and we are investing the cash in the matched asset portfolio. And the hedging is only done for paying out this embedded equity option, which gives a little upside for the customer, but it is not changing the risk profile for us as the shareholder.

Nick Holmes
Societe Generale Cross Asset Research

Understood. And sorry, just one final question which is, given the volumes you're writing, do you have a sort of limit on the volume that you see going forward? Because, I mean, if you continue to grow at this pace, you will turn into a U.S. Life company.

Dieter F. Wemmer
CFO & Member of Management Board

Well, look, Prudential gets also volume from the U.S. and is still seen as an Asian life company. So I'm pretty happy to inherit the P/E of Pru.

Nick Holmes
Societe Generale Cross Asset Research

No, that's a very good answer. But is there a sort of limit that you've got or are you happy to just carry on growing at this sort of level?

Dieter F. Wemmer

CFO & Member of Management Board

I think we carry on growing with this product. We have still a limit on our VA volume, and we are not lifting our limit on the VA volume.

Operator

Moving on to Atanasio Pantarrotas of Kepler.

Atanasio Pantarrotas
Kepler Cheuvreux, Research Division

Three quick questions, I hope. First one, on the reinvestment yield in P&C, you mentioned that was 2.5% in the first half. However, I guess, now is considerably lower, given that the narrowing spread, also, for example, Spanish govies [ph] yield for 3, 4 years, maturity is below 1%. Second question -- so if you can provide what is -- what could be now the reinvestment yield in P&C. Second question, again, on the sovereign charge in Solvency II. According to you, is there any chance that only the cross-border investment would be penalized in terms of capital? Or you'd consider that every bond investment, also if a company invests in a domestic government bond market, would be penalized? Final question, on your acquisition on Unipol portfolio, I know that it's a work in progress. But what is your target in terms of combined ratio, at least your target range of combined ratio for the portfolio acquired?

Dieter F. Wemmer
CFO & Member of Management Board

Yes, I think we will not disclose target combined ratio for the Unipol acquisition. I think that would be -- certainly, we have a business plan, but actually we are not disclosing the business plans to this detailed level. You have -- sorry, Atanasio, you have to understand this. The reinvestment yields today compared to the Q2 numbers, I think you probably have to expect that it is 10, 20 basis points lower. The sovereign risk topic, that is a widely discussed topic among all the European insurance groups, as well as the regulator among each other, and there are various scenarios floating around. There is a question, should it be excluded completely? Should there be a mixed solution where only cross-border sovereign bonds are being treated like corporate bonds? But the whole market bias would allow to consider it still at risk-free or the full treatment as corporate bonds. All variations are in the room. And the only statement I have made is there is a higher likelihood that there'll be some form of risk charge for the corporate bonds. But for the sovereign bonds, whether it will go to the 100% of the corporate bond or some middle ground, that could be. But I think that it's, at the moment, changing and so back to the [ph] time that it's almost not worthwhile to speculate.

Atanasio Pantarrotas
Kepler Cheuvreux, Research Division

Okay. And your model is built according to -- make a capital charge also on the domestic bonds or only on the cross-border investments?

Dieter F. Wemmer
CFO & Member of Management Board

In our own calculation, full distance. You should know our risk manager.

Operator

The next question comes from Andy Broadfield of Barclays.

Andrew Broadfield
Barclays PLC, Research Division

A couple of questions, please. I will come very briefly back to that Solvency II question. You mentioned, I think, when you first introduced it into the model beginning of the year, a comment which referred to the fact that financial services should all be treated the same and that the introduction of this into the banks would be quite a considerable charge for them and then that would create some considerable level of disorder, and that therefore, that was something that the regulators need to think about. I was wondering what your updated view is on that because it seems to me that you've taken a slightly more -- slightly harder view, assuming that there will be a charge. That's question number one. Number two, if, for Friday afternoon, you allow me to dream for a moment, the German P&C business has been a long-term work in progress and is really starting to deliver -- or really not starting to deliver, but really is delivering, how much further do you think this can go? Because I get the sense the momentum has only really started building. We're only a year or 2 into that momentum, in fact, in terms of delivery, yet is already delivering great results and great growth. What aspirationally do you think you can do in Germany?

Dieter F. Wemmer
CFO & Member of Management Board

I think our -- let me start with Germany and delivery of the P&C result. It is true they are outperforming the targets and that is really a great success of the management team, which is, at the moment, also very happy with what they have achieved. And they should be really very proud about it. Our fairly, I would say, optimistic uplift of that we go to the upper end of the range in our outlook, I think, is certainly based also on the fact that we trust very much into the German delivery. So now to lift the numbers for 2015 and giving new public targets, I think that the half year results might not be exactly the right place to do this, and therefore, we should do this when it is appropriate time. Andy, on this level-playing field topic, I think that it's really close to my heart and I have, really, to look at the sovereign risk charge here in 2 ways. On one hand, I have to put into our model what we are, in the end, are being forced to include. Our regulator tells us, without the sovereign risk charge, your model has no chance for approval, then it would be hard to fight it. On the other hand, I will not stop saying that the level-playing field among the insurance industry and also between insurers and bankers is a must. And if regulators are currently falling short of it or potentially are falling short of it, then we will certainly continue to highlight it at every opportunity.

Andrew Broadfield
Barclays PLC, Research Division

I'm a bit disappointed with your German answer. I might ask it again. Maybe you might change your answer, which is...

Dieter F. Wemmer
CFO & Member of Management Board

I enjoy the 91% combined ratio of the first half and take it as booked and granted.

Operator

We will now move to Vinit Malhotra of Goldman Sachs.

Vinit Malhotra
Goldman Sachs Group Inc., Research Division

This is Vinit Malhotra. Just one very quick follow-up. We talked so much about the U.S. EIA product. Just also noticed that there are 50 bps compression in margin between 1Q and 2Q. Is it just because of the fall in -- slight fall in U.S. Treasury yields in the quarter? Or is there some caution being built because of this explosive growth in the product? That's the first question. Second question, on PIMCO, we've seen already some coming out in the total return fund outflows in July. But equally, the emerging market bonds and the high-yield bonds are not doing too well. Can you just comment on, is July -- is it really getting a little better, if we just handle that? And lastly, just a very quick one. Is there any -- are you already noticing or taking -- or discussing about the rule changes in India? Because if the FDI rules and the market value rules are there, then it could be a reasonably sizable decision to make. So I just wanted to follow up.

Dieter F. Wemmer
CFO & Member of Management Board

In India, I think we have -- when the rules are clearly changing, then we have all options to take up also our higher share in the business, but I think that is also negotiation with our joint venture partner. And I think we would prefer actually also here to negotiate first with our joint venture partner. And then when the negotiation is completed, then we would announce it. But certainly, we would be very positive that the rules are changing. So let's cross fingers that this is really happening. July changes in the financial market, I don't see too many impact on our results. I wouldn't see any special write-downs at the moment. So therefore, I couldn't see what you are seeing at the moment. The new business margin in the U.S. actually includes 2 effects. You are right, it is 30 basis points lower than in Q1. What we are doing in the U.S. also in the calculation of the new business margin, we are updating the interest rate curve every 2 weeks. So therefore, our Q2 number is, at the end of Q2, already up to date with the latest interest rates. So therefore, you get more or less the impact of the average interest rate of the quarter. And that is -- was, in the second quarter, substantially lower than that in the first quarter. And I think the impact of the interest rate change is probably more than the 30 basis points because the high sales volume was a positive. So therefore, the interest rate impact is probably your 50 basis points, as you have mentioned, and then 30 is then the baseline impact, where 20 is being reversed by the volume. Good point, yes.

Vinit Malhotra
Goldman Sachs Group Inc., Research Division

I just mentioned because the FIA margin of 4.3% became 3.8%, if I adjust the FIA, but that's fine.

Operator

We will now go to Michael Huttner of JPMorgan.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

On the pricing, so -- I just checked, so the pricing going forward, that lovely table in the appendix, is down -- sorry, it's up and it is up 1.1%, I think, and it goes up 1.4% at the half year -- at the first quarter. Are we -- from your comments, I'm thinking we actually now are equal to the run rate of claims inflation. Is that about right? And then just to follow up on the 3 countries where -- which are undergoing a turnaround, could we already see a material change in the second quarter -- in the third quarter? In other words, this EUR 100 million reserving or EUR 200 million total underwriting loss, could it maybe half in the current quarter?

Dieter F. Wemmer
CFO & Member of Management Board

I think that of the 3 countries, certainly, Brazil, I think we will see an improvement month-over-month. Russia, I think we have probably taken the major part of the full year loss. Maybe not yet all of it, that depends on how the day-to-day development is, but certainly more than 50%. Therefore, the second half of the year is certainly different. And Fireman's Fund, of course, depends pretty much on how the wind blows in the third quarter. Therefore, I cannot say that the second quarter result is different from the first half year result. And surprising, look, I think inflation in Europe, at the moment, is not a topic. When the EZB is even recommending that all German employers should treble the salaries of the employees to get more inflation into the country, you'll see where inflation stands in Europe. I think -- I personally think that is a desperate move of our central bankers when they are already coming with such proposals.

Operator

We will take the next question from Michael Haid of MainFirst Bank.

Michael Hermann Haid
MainFirst Bank AG, Research Division

Two questions. The first, on German Life insurance, could you provide some more color on the breakdown of the new business margin of the traditional Life products and of the new products, Perspektive and IndexSelect? Second question, price effects in P&C insurance, I would like to reconfirm 2 slides: the Slide 9, negative pricing impact of minus 0.4%; and Slide 62, where you show a positive price impact of 1.1%. How is the delta explained?

Dieter F. Wemmer
CFO & Member of Management Board

I think 62 is the strict price effect on the renewals and not on the total. I think that price effects are probably not especially calculated to the last decimal point, so there is something, some rounding differences between. Between the traditional business and Perspektive, the new business margin on Perspektive might be a little bit lower, but not a lot. I think the new business margin is not completely measuring the lower capital requirements the product needs, because new business margin calculations are not aligned with Solvency II synching completely. And therefore, the new business margin gives you only half of the story, and in particular, in times when investment portfolios are shifting clearly to credit risk. I think the new business margin is a little bit falling short as a measurement in this respect, and I think we need, under the Solvency II world, more comprehensive measurements in the long run than you would margin.

Michael Hermann Haid
MainFirst Bank AG, Research Division

And if you had the choice of selling still a traditional Life product, and I know the Allianz is very cost efficient, let's put it this way, and sell one Perspektive product, you would still go for the traditional product?

Dieter F. Wemmer
CFO & Member of Management Board

No.

Michael Hermann Haid
MainFirst Bank AG, Research Division

As a company?

Dieter F. Wemmer
CFO & Member of Management Board

As a company, we encourage for both sides, for the customer and us, the nontraditional product, because the capital consumed by the nontraditional product is substantially lower, which allows us to take more investment risk. So therefore, it is a great trade for both sides. In the end, we are paying the customer for the Perspektive 30 basis points more return. So we are paying, at the moment, 4.5% total return to a Perspektive customer; to a traditional customer, 4.2%. And the 30 basis points are justified because we are taking more investment risk. And to sell products in this low-yield environment with 60 years' guarantee, that is bad for the company and bad for the customer. So it is a win-win situation, and I think the people who are still skeptical about the win-win situation should spend more time with our product designers at Stuttgart.

Operator

[Operator Instructions]

Oliver Schmidt
Head of Investor Relations

Well, it's Friday afternoon, the weekend is close.

Dieter F. Wemmer
CFO & Member of Management Board

Yes, and some have already packed their suitcases and off to the airport, as I heard the shuffling in the background. So I wish you really a great summer vacation. For the one of you who were not yet off, August is usually vacation time and Bavaria is here close to Italy. We all take August off as the school kids in Bavaria as well. And I wish you a great summer and hope to speak to you soon after the summer. And I know what I have to deliver in the second half of the year, that is another good quarter in November, and then a good story on the capital management. Thank you.

Oliver Schmidt
Head of Investor Relations

Thanks a lot. We say goodbye to everybody. We wish you a nice weekend and talk to you soon. Bye.

Operator
That will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.