

ECONOMIC RESEARCH

Trend Watch 6

December 15, 2017

▶ MACROECONOMICS ▶ FINANCIAL MARKETS ▶ ECONOMIC POLICY ▶ SECTORS

Katinka Barysch

Beyond populism

TrendWatch

No. 6

Beyond populism

- 1. Why populism matters3
 - Box: What is populism?5
- 2. Voter revulsion and the financial crisis6
- 3. Four trends that unsettle Western politics7
- 4. Political volatility will remain high12

AUTHOR:

KATINKA BARYSCH
Phone +49.89.3800-4997
katinka.barysch@allianz.com

Beyond populism

SUMMARY

- Populist economic policies can boost growth and financial markets in the short term, but they also purport uncertainty and volatility. Populists' disdain for checks and balances threatens to weaken pluralist democracies, while their predilection for facile solutions rarely results in sound policies. This would be bad for long-term growth.
- After the Brexit vote and the victory of Donald Trump in the US, it appeared that a wave of populism was sweeping Western democracies. Many commentators heaved a sigh of relief when populist candidates did not prevail in various European elections in 2017. To ascertain whether populism has peaked, we need to understand what drove political discontent in the first place.
- Looking at underlying trends, such as rising economic inequality, deepening values divisions, diminishing trust and the declining appeal of mainstream parties, we conclude that politics in Western democracies will remain in a state of flux. The impact of digitalization, the internet and social media could further destabilize Western politics in years to come.
- Structural political volatility does not mean that all risks are on the downside. It can be an opportunity for reformist newcomers, for example. But there will be no going back to 'normal', in terms of a predictable transfer of power from one mainstream party to another.

1. WHY POPULISM MATTERS

The rise of populist forces in recent years has spooked analysts, and at times also markets. Why would it matter?

Perhaps surprisingly, the near-term impact of populist policies on economies and markets has often been benign. A study of 27 historical cases shows that national stock markets rose by an average of 24% in the two years after populists took power, while yields fell by 7%. Five years after a populist government takeover, GDP per capita and investment had risen on average, while inflation was down.¹

Nevertheless, investors have reasons to be worried about the economic impact of populism:

- In most historical cases, populists took over in small emerging market economies that were already suffering from severe economic problems. When things went wrong, international lenders often stood ready with bail-out money and orthodox policy prescriptions. These precedents might not provide clues about the impact of populist economic policies on highly developed Western economies.
- The fiscal spending, interventionism and protectionism that populists like to administer can boost growth in the short term. But such policies usually end in

¹ Moritz Schularik, 'Populism and financial markets', Presentation for Allianz Global Investors, April 25th 2016.

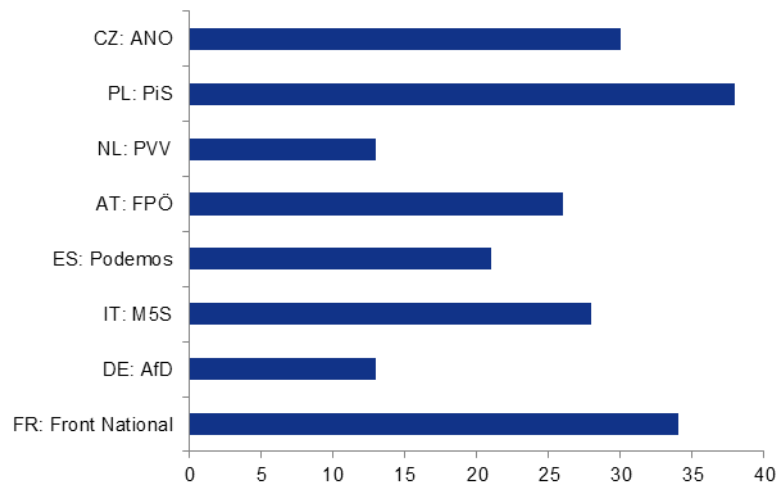
painful busts and undermine competitiveness further down the road. Populist economics are ultimately “self-destructive”.²

- Populists tend to question the principles of pluralist politics, liberalism and globalization. They rail against constraints of any sorts, be it exchange rate pegs, independent central banks or EU rules. They also have a habit of singling out specific companies and sectors for criticism, interference and sometimes nationalization. All this worries economists. Stable institutions, the rule of law and economic openness are generally considered good for growth.

Many people would argue that the danger has deflated, if not disappeared. After all, in 2017 Geert Wilders did not gain the biggest vote share in the Dutch parliamentary election, a Green-party candidate defeated a right-winger in the Austrian presidential election, and the pro-European Emmanuel Macron won the French presidency against the nationalist Marine Le Pen.

Support for populist parties in most recent elections

% of voters



Parliamentary elections, other than France = presidential election run-off; Italy = November polls for 2018 election
Sources: Various

The populist threat, as depicted in the media, might have been overplayed in the first place. In most Western democracies, anti-establishment forces never stood a chance of gaining power. Even at peak time, populists rarely managed to gather more than 25-30% of voter support.³ Populists can, however, influence politics in indirect but important ways:

- Threatened by populists, mainstream parties often adjust their policies on, say, trade, migration and taxation, in an attempt to regain voters' favor. In recent years, we have seen center-right parties become more nationalist and center-left parties turn more socialist. Sometimes mainstream politicians of all stripes eclectically adopt seemingly popular vote-getters: while center-left candidate Hillary Clinton promised to cap pharmaceutical prices, center-right candidate Theresa May vowed to cap electricity prices. Generally, populists appear adept at sharpening political divisions and eroding support for centrist positions.

² Rudiger Dornbusch and Sebastian Edwards, 'The macroeconomics of populism in Latin America', NBER, 1991.

³ Much depends on the voting system: 26% of eligible voters were enough to make Donald Trump the US president. In proportional systems, such shares would at most be enough to get a party into a ruling coalition.

- The rise of new political forces leads to political fragmentation and complicates coalition building. Spain in 2016 needed two elections over the course of almost a year to form a (weak) government. In the Netherlands in 2017, various political forces were looked into multi-party talks for over 200 days to reach a coalition agreement. And Germany faced harrowing coalition talks after the entry of the Alternative für Deutschland into the parliament in September 2017 unsettled established party politics.
- If political newcomers are shunned by mainstream parties, a grand coalition of center-left and center-right forces can look like the only viable option for government. Such grand coalitions often reinforce political discontent, since voters fear the absence of a mainstream opposition and a concentration of power in the executive.

Hence, even if populists do not win, they can have destabilizing effects on domestic politics. Already, indicators show that the quality of democracy is regressing in the US and in various EU countries.⁴ Unanticipated policy shifts, political gridlock or government turmoil translate into higher uncertainty for households and businesses. Political uncertainty can have as big an impact on economic growth as actual negative political shocks.

If we want to ascertain whether the risks emanating from populism have diminished, we need to understand what drove the populist wave in the first place. In this paper, we look at a number of underlying trends that, we believe, have contributed to the phenomenon and find that most of them have not abated.

What is populism?

Populism is hard to define. But there are a few traits that most scholars can agree on.

Anti-pluralist: Populists claim to represent ‘the people’ – usually depicted as both united and honest – against the elites – generally depicted as corrupt and self-serving – and against outsiders such as immigrants. Since populists by definition embody the popular will, they often do not see justification for checks and balances in the shape of opposition parties, free media, independent courts or international agreements. These constraints routinely get vilified as being skewed in the interests of elites or foreigners, or both.

Anti-liberal: Populism can take both left and right-wing forms. Traditionally, left-wing populists used to stand for more tolerant, internationalist social values while rejecting economic liberalism. Right-wing populists were often more economically liberal while rejecting social liberalism. Today, that distinction is frequently blurred. Most current populist movements reject openness to trade, migration and financial flows and prioritize national control over international cooperation.

When we speak about populism here, we refer to any political force that questions pluralist forms of democracy and rejects economic and political openness.

⁴ Economist Intelligence Unit; ‘Democracy Index 2016’, January 2017. The indicator rates electoral process and pluralism; civil liberties; the functioning of government; and political culture.

2. VOTER REVULSION AND THE FINANCIAL CRISIS

Some political scientists argue that populism only ever emerges as response to some sort of crisis. And the deeper the crisis, the stronger the punishment that voters meet out for incumbent governments and established parties.⁵

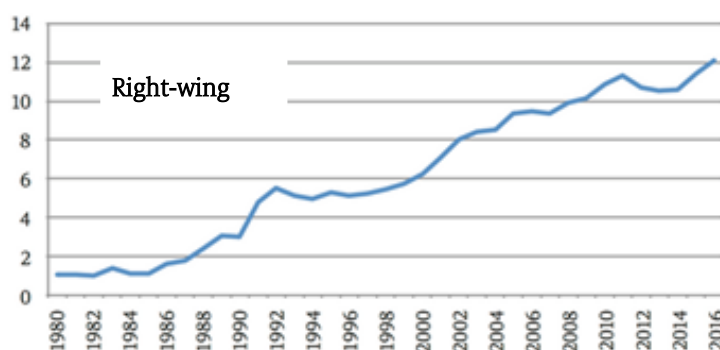
It turns out that large-scale *financial crises* have more profound political effects than ‘ordinary’ recessions. A study that looked at financial crises going back to the late 1800s found that the share of votes for extreme right-wing parties went up by 30% on average – and not at the height of the crisis, but five years afterwards. Gains for left-wing parties were much smaller. The study also found that the political impact was transitory: around 10 years after the crisis, political systems in the affected countries had gone back to normal.⁶

Superficially, the pattern seems to fit the financial and debt crises that started in 2007. Recent defeats of populist forces would suggest that Western economies have now entered that stage of normalization so often observed in the past. We have little doubt that the financial crises has reinforced existing resentments among voters. However, we find too many anomalies in the most recent rise of populism to see it merely as a venting of anger about crisis-induced bank bailouts and job losses⁷:

- The earliest post-crisis populist gains were registered in countries whose economies did not suffer that much from the crisis, such as Sweden and Finland. In countries that were affected much more severely, such as Spain and Ireland, populist gains were delayed and muted.
- The share of votes going to populist parties in the West had been rising long before the financial crisis. Across Europe, the average share of votes going to populist parties has been growing for decades. While it appears that right-wing populism is losing momentum, the rise of ‘authentic’ and radical leftwingers in some countries indicates that populism may just be shifting shape.

Hence, we need to look for deeper causes of popular discontent and the attractiveness of populist solutions to explain this broader and longer-term trend.

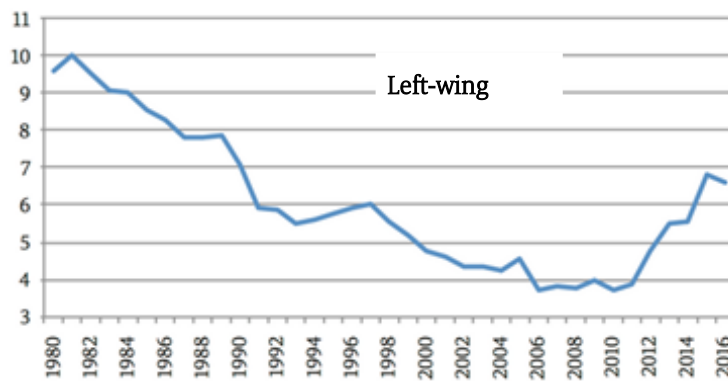
Mean support for populist / authoritarian parties in Europe



⁵ For example, Benjamin Moffitt, ‘How to perform crisis: A model for understanding the key role of crisis in contemporary populism’, *Government and Opposition*, April 2015.

⁶ Manuel Funke, Moritz Schularick and Christoph Trebesch, ‘Politics in the slump: Polarization and extremism after financial crises, 1870-2014’, September 23rd 2015.

⁷ Katinka Barysch, ‘Is the euro crisis responsible for populism’, *Centre For European Reform*, April 19th 2013.



Source: Timbro, 2016

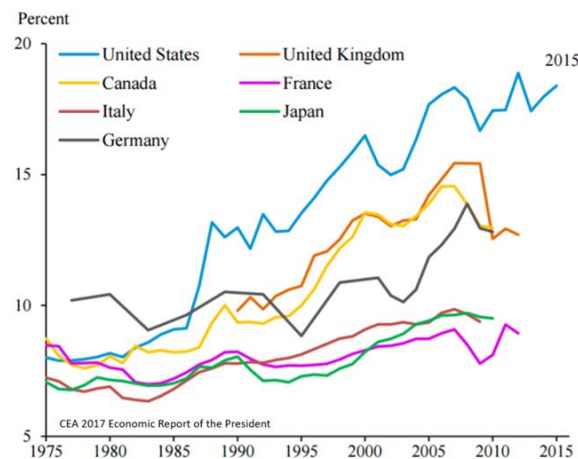
3. FOUR TRENDS THAT UNSETTLE WESTERN POLITICS

Trend 1: Wage stagnation and economic inequality

The most frequently cited cause for popular discontent is rising inequality in Western societies.

In the US, for example, the share of income going to the top 10% of earners has doubled since 1970, while the share of national wealth held by the top 10% has reached around 40%. In Germany and Italy, the top 10% of earners now carry home over one-third of the total wage bill.⁸ Within that privileged group, income and wealth are often becoming more concentrated in the hands of the top 1% or even the top 0.1%.

Share of income earned by the top 1%



Source: World Wealth and Income Database

While high-income earners have become richer, average earners fared badly, especially during the crisis years: between 2005 and 2014, seven out of ten people in developed economies saw their market incomes stagnate or fall – although the picture looks less stark if one looks at disposable income after taxes and benefits. The financial crisis was not the only reason for income stagnation. Longer-term forces have also played an important role, including demographic change, international trade, workplace automation and a growing concentration and winner-takes-it-all competition in many industries.

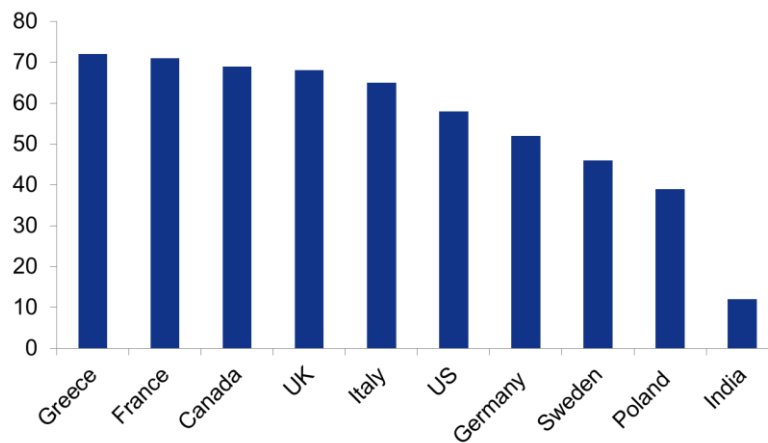
⁸ World Wealth and Income Database.

Income and wealth statistics may not depict the full picture of economic fears. In many Western countries, a sizeable share of people is stuck in temporary or zero-hour contracts, with no job protection, pension rights or paid holidays. Often mired in debt, the members of this ‘precariat’ have no safety net and few prospects for improvement.⁹ Social mobility has worsened in many Western countries in recent years.

Perhaps not surprisingly, these trends have left people gloomy, even as the economies in which they live have recovered from the great recession. For the first time since the 2nd World War, most people in Western countries no longer assume their children will be better off than they are. In the UK, France, Italy and Canada, the share of people who expect their children to do worse exceeds two-thirds, while in the US and Germany it is over half.

When today’s children grow up, they will do worse than their parents

% of respondents who agree



Source: Pew Global Attitudes, 2017

It looks very plausible that stagnating incomes, rising inequality and changing job markets have fueled uncertainty and anger among voters, which, in turn, has played into the hands of populists. And yet, economic explanations are probably not sufficient to understand recent political upsets:

- The early and persistent successes of populist, anti-immigration parties in Sweden, Denmark, Finland and Switzerland – amongst the richest and most egalitarian societies in the world – can hardly be explained by economics.
- The income and wealth figures appear most stark in the US and the UK. Yet in these countries, inequalities have been rising for decades. These long-term trends alone probably cannot explain the outburst of voter anger that led to Brexit and Trump.
- In many continental European countries, there has been no clear trend towards inequality in the past decade if one looks at incomes after taxes and social benefits. And yet, a majority of people in many of these countries *feel* that the economic system has become less fair.

⁹ Guy Standing, ‘Meet the precariat, the new global class fuelling the rise of populism’, The Agenda, November 9th 2016.

- In the Brexit vote, education, location and age turned out to be more important determinants of whether someone voted Leave or Remain than income or employment.¹⁰
- In various countries, including the US and Germany, populist forces have had their strongest appeal not among the poor or unemployed, but among the lower middle classes and the self-employed.

Trend 2: Clashing values

Many political scientists and sociologists argue that populism is not primarily driven by societies' deepening division into haves and have-nots, but by clashing values and culture wars.

The spread of 'post-materialist' and cosmopolitan values since the 1970s – women's liberation and gay rights, environmentalism and multiculturalism – has fueled a backlash, especially among white men with status anxiety, who resent feeling sidelined in their own country. Political figures who cater to traditionalist values, anti-immigrant sentiment and distrust of local elites have gained traction. The fact that older, male, less educated and rural voters vote for populists more often than younger, female, university educated urbanites also seems to support the value hypothesis.

Surveys show that there is still a degree of overlap between a person's economic fortunes and his or her values and political attitudes. But that overlap is far from complete. Since the 1970s, traditional class-based voting patterns have increasingly been superseded by divisions along value and cultural lines. In the US, by the 1990s, income and education were much weaker indicators of political preferences than a person's attitude towards religion, same-sex marriage or abortion.¹¹ Various studies have also shown that those who adhere to traditionalist and, at times, authoritarian values tend to support populists, irrespective of their economic status.¹²

The dispute between those who favor economic explanations of populism and those who stick to values-based theories will perhaps never be resolved, not least since it is often the same sort of people who have resented the social changes happening around them and who were hit most severely by the economic forces driving inequality and precariousness. The appeal of many populist narratives can then perhaps be best understood using a mixture of economic and values-related explanations. Opposition to globalization, for example, is not only caused by fears of job losses and wage stagnation, but the rejection of liberal values such as openness, a sense global responsibility and equal rights for immigrants.

It is striking that populism has recently looked particularly appealing in Anglo-Saxon countries, in which individualistic values are more prevalent than in much of Europe. The notion that every man and woman is free to get ahead can also leave those who do not achieve success with a debilitating sense of personal failure. Populist narratives that help people blame a 'rigged system' or 'the elites' for their personal plight might diminish that sense of personal failure. Populists can thus gain traction even if they do not actually alleviate economic misery or create jobs.

¹⁰ Simon Wren-Lewis, 'A divided nation', *Mainly Macro*, August 8th 2016.

¹¹ Robert Inglehart and Pippa Norris, 'Trump, Brexit and the rise of populism: Economic have-nots and cultural backlash', Harvard Kennedy School, August 2016.

¹² For example, Matthew McWilliams, 'Authoritarianism and the rise of populist national parties in Europe', October 26th 2016.

If populism is fueled not only by economic trends but by more deep-seated cultural changes, then a return to higher GDP growth or more social spending will not resolve the issue quickly. In addition, people appear to be losing trust in government and other institutions to supply solutions to their concerns.

Trend 3: Failing trust

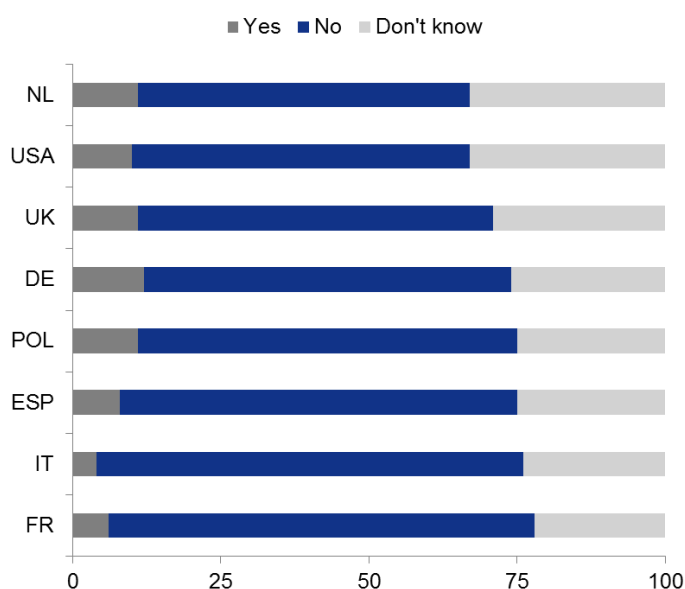
Growing mistrust in democratic political institutions plays into the hands of those who promise a rupture with the political status quo. Coherent party programs and credible policy promises then become less important than the simple promise to shake things up.

Trust in public institutions fluctuates in response to political events and economic cycles. But there is also a long-term trend in most Western democracies towards deepening skepticism of political systems. In the 1960s, for example, some 80% of Americans trusted their government to do what is right. That figure has trended downwards over the decades, and by 2015 it was below 20%.¹³

Levels of trust in government, media and business collapsed with the financial crisis, then started to recover, but in 2016 fell again across the board. Opinion pollsters now speak of a “global trust crisis”.¹⁴ Asked whether ‘the system’ is working for them, large majorities in most Western countries say no. Trust levels also mirror the economic and values divisions in societies, as distrust is much deeper among many ordinary people than among educated and informed elites.¹⁵

The level of political trust is a strong predictor for populist voting, and that is particularly so where mainstream parties are losing credibility, be it as a result of long-term shifts (see below) or as a result of acute economic and political crises.¹⁶

Is the system working?



Source: Edelman Trust Barometer 2017

¹³ Pew Research Center, ‘Beyond distrust: How Americans view their government’, November 23rd 2015.

¹⁴ Edelman Trust Barometer 2017.

¹⁵ Edelman measures this ‘trust gap’, which reached 15% in 2017, from 9% in 2012.

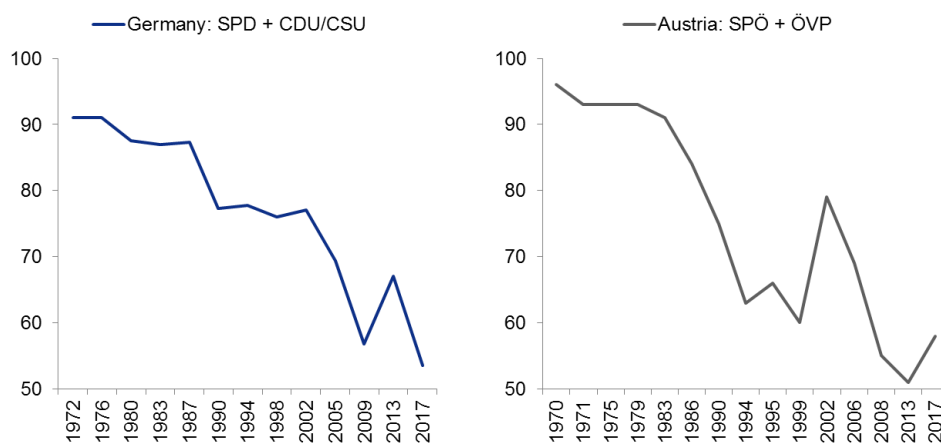
¹⁶ Danilo Serani, ‘Explaining vote for populist parties: The impact of the political trust, the economic and the political context’, Universitat Pompeu Fabra, November 2016.

Political parties – the mainstay of pluralist, representative democracies – have suffered more from collapsing trust than other political institutions. Today, eight out of ten people globally say they distrust political parties¹⁷, leaving the field wide open for non-traditional political ‘movements’, charismatic leaders and those who promise direct forms of political participation.

Trend 4: Decline of established parties

Until the 1970s, a majority of voters in Western democracies usually supported either social-democratic or conservative-Christian parties. In many countries, their combined share of the vote exceeded 90%. This share has been declining for decades. In a number of recent election, most notably in presidential elections in Austria and France, the traditional mainstream parties did not even make it into the run-offs.

Mainstream parties: Combined share in parliamentary elections



Sources: Wahlrecht.de; heute.at, wikipedia

A variety of economic and social trends are behind this broad-based loss of support for mainstream parties:

- The shift from industries to services and the individualization of work arrangements has weakened trade unions and collective bargaining – previously a major source of support for social-democratic parties. The retreat of religion in Western societies has had a similarly corrosive impact on traditional conservative and Christian parties.¹⁸
- Traditional parties have come to be perceived as less representative of their members and voters, and more as a part of the state apparatus. Three-quarters of Germans, for example, accuse Germany’s established parties of being aloof from everyday issues.¹⁹
- Traditionally, parties were strongly affiliated with social classes, as they offered their clientele distinct economic choices, such as re redistribution vs individual

¹⁷ Survey among 23 countries, Ipsos, January 2017.

¹⁸ Cas Mudde, ‘Europe’s populist surge, a long time in the making’, Foreign Affairs, October 31st 2016.

¹⁹ Emnid survey, May 2016.

opportunities and state intervention vs free markets. This affiliation has weakened, as economic issues retreated and values came to the fore, as explained above. Already by the 1980s, class-based voting had started to collapse in the UK, France, Sweden and West Germany.²⁰

- Globalization and technological change, and in Europe the transfer of powers to the EU level, have undermined the ability of parties in power to deliver on their economic policy promises and shape economic outcomes. This trend appears to have hit center-left parties harder than center-right ones, which have traditionally had more credibility on matters of security and identity.
- On many issues, the programs of traditional center-right and center-left parties have converged, often to a degree that voters struggle to tell them apart. Voters then look elsewhere for real political alternatives.

The retreat of traditional center-left and center-right parties has vacated political space into which new parties have moved – not only populists but also parties representing environmental concerns, pensioners, regional interests and so forth. In some democracies, majoritarian (or first-past-the-post) voting systems make it much harder for small and new parties to gain parliamentary representation. In such countries, mainstream parties have sometimes shifted their ideologies in reaction to the trends listed above. Recent examples include the influence of the Tea Party movement on the Republican Party in the US and the leftward lurch of the British Labour Party under Jeremy Corbyn. Some political scientists worry that representative democracy can only survive if two mainstream parties alternate in power by offering broadly acceptable policy alternatives.

4. POLITICAL VOLATILITY WILL REMAIN HIGH

The political surprises and upsets that we have witnessed in many Western democracies in recent years cannot be explained by any one factor. Country-specific reasons have played a role, but so have a combination of broader long-term trends. The financial and debt crises that started in 2007 have reinforced such trends.

While the US and Europe have returned to growth after the crisis and unemployment has fallen, none of the underlying trends that have unsettled Western democracies in past decades have abated.

Therefore, we do not expect a return to predictable politics in the medium term. While voters may to some extent become disillusioned with populist policies and facile solutions, we see other forces that could reinforce political instability and unpredictability going forward:

- Continued globalization could deepen economic inequalities. Some economists argue that for countries that are already deeply integrated into the global economy, any further economic opening may not generate enough additional growth to compensate the losers from increased competition. Globalization may thus become politically unpalatable for rich countries.²¹

²⁰ Inglehart and Norris, see footnote 11.

²¹ Dani Rodrik, 'Economics of the populist backlash', VoxEU, July 3rd 2017.

- Advances in artificial intelligence, the availability of big data and falling IT costs will lead to further advances in workplace automation, not only in manufacturing but also in services. Technology-driven job disruption is not new. But this time, the disruption might be quicker and more widespread than during previous industrial revolutions. Voters will demand political solutions.²² Some economists think that, just as in previous industrial revolutions, major social and political upheaval will be required to ensure that the new technologies benefit a majority of the population.
- Political and values divisions appear to be deepening in many Western democracies. The widespread use of social media, where clever algorithms filter news and discussions to suit the reader's previously revealed preferences, is reinforcing this trend. As people today are more inclined to believe search engines than human editors,²³ they risk getting caught in so-called echo-chambers. Already, a majority of people globally say that they never or rarely change their minds on social issues, and that they do not listen to people or organizations with whom they tend to disagree.²⁴
- Beyond the polarizing effect of social media, politics appears to become more unpredictable and fractured in the age of the internet. The organizations that used to channel interests in the political process – not only parties but also trade unions, associations and other groupings – are in decline. Mobilization happens spontaneously. Individual issues get people worked up quickly – and disappear just as quickly. Comprehensive political programs and consistent worldviews are losing appeal. Politics in the social media age may come to resemble “chaos theory” rather than the laborious process of finding sustainable compromises between various interest groups.²⁵
- In recent elections and referendums, young people have mostly proven more resistant to populist rhetoric than older generations. However, younger people are also far less likely to vote or engage in politics. Surveys show that they have few party loyalties and sometimes only tenuous attachments to democratic values. One survey in 2017 showed that the value that people attach to living in a democratic system declines steeply by age cohort. In several Western countries, significantly less than half of young people said this was essential to them.²⁶ Such surveys have to be treated with caution. Nevertheless, some observers worry that since today's younger people have no living memory of any political calamities, they might be more prone to political experimentation.

Western democracies are being riven by economic, social and technological change. Yet their political and party systems have been slow to adapt. Until they do, politics in Western democracies will remain in a state of flux.

In this volatile environment, political surprises will happen regularly, as party loyalties weaken and frustrated voters demand clear answers to frighteningly complex developments. Questions abound about the impact of the internet and social media on

²² A case can be made that the last US election was a “riot against the machines by democratic means” since Donald Trump's support in electoral districts was clearly correlated with the share of routine jobs, which are at high risk of automation. Carl Frey et al, ‘Political machinery: Automation anxiety and the US presidential election’, July 23rd 2017.

²³ Edelman Trust Barometer 2017.

²⁴ Edelman Trust Barometer 2017.

²⁵ ‘The signal and the noise, A survey on technology and politics’, The Economist, March 26th 2016. Katinka Barysch, ‘The false promise of digital democracy, Project Syndicate, February 11th 2014.

²⁶ Foa and Mounk, cited in ‘Millennials are rapidly losing interest in democracy’, The Agenda, June 19th 2017.

political stability. While these technologies are providing new ways of voter participations and increase transparency, they have also led to polarization, radicalization and the spread of fake news, while allowing political upstarts to reach millions of people in a matter of weeks.

Not all political surprises will be bad from an economic perspective. Half a year before their respective elections, the victory of the liberal Emmanuel Macron appeared just as unlikely as that of the populist Donald Trump. For investors, political volatility has upsides as well as downsides. But they will need to discard established categories and old certainties and instead watch their political surrounding more carefully than in the years before the crisis.

ABOUT ALLIANZ

The Allianz Group is one of the world's leading insurers and asset managers with more than 86 million retail and corporate customers. Allianz customers benefit from a broad range of personal and corporate insurance services, ranging from property, life and health insurance to assistance services to credit insurance and global business insurance. Allianz is one of the world's largest investors, managing over 650 billion euros on behalf of its insurance customers while our asset managers Allianz Global Investors and PIMCO manage an additional 1.3 trillion euros of third-party assets. Thanks to our systematic integration of ecological and social criteria in our business processes and investment decisions, we hold a leading position in the Dow Jones Sustainability Index. In 2016, over 140,000 employees in more than 70 countries achieved total revenue of 122 billion euros and an operating profit of 11 billion euros for the group.

ABOUT EULER HERMES

Euler Hermes is the global leader in trade credit insurance and a recognized specialist in the areas of bonding, guarantees and collections. With more than 100 years of experience, the company offers business-to-business (B2B) clients financial services to support cash and trade receivables management. Its proprietary intelligence network tracks and analyzes daily changes in corporate solvency among small, medium and multinational companies active in markets representing 92% of global GDP. Headquartered in Paris, the company is present in over 50 countries with 5,800+ employees. Euler Hermes is a subsidiary of Allianz, listed on Euronext Paris (ELE.PA) and rated AA- by Standard & Poor's and Dagong Europe. The company posted a consolidated turnover of €2.6 billion in 2016 and insured global business transactions for €883 billion in exposure at the end of 2016. Further information: www.eulerhermes.com, LinkedIn or Twitter @eulerhermes.

These assessments are, as always, subject to the disclaimer provided below.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

The statements contained herein may include prospects, statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties. Actual results, performance or events may differ materially from those expressed or implied in such forward-looking statements.

Such deviations may arise due to, without limitation, (i) changes of the general economic conditions and competitive situation, particularly in the Allianz Group's core business and core markets, (ii) performance of financial markets (particularly market volatility, liquidity and credit events), (iii) frequency and severity of insured loss events, including from natural catastrophes, and the development of loss expenses, (iv) mortality and morbidity levels and trends, (v) persistency levels, (vi) particularly in the banking business, the extent of credit defaults, (vii) interest rate levels, (viii) currency exchange rates including the euro/US-dollar exchange rate, (ix) changes in laws and regulations, including tax regulations, (x) the impact of acquisitions, including related integration issues, and reorganization measures, and (xi) general competitive factors, in each case on a local, regional, national and/or global basis. Many of these factors may be more likely to occur, or more pronounced, as a result of terrorist activities and their consequences.

NO DUTY TO UPDATE

The company assumes no obligation to update any information or forward-looking statement contained herein, save for any information required to be disclosed by law.