HOST | NARRATOR: INTRODUCTION

In today’s episode we are talking about a phenomenon that probably is familiar to every company, every country and every individual: Inflation. We will talk about how inflation hit Allianz and how the company has successfully coped with not one, but actually three, inflationary and hyperinflationary periods.

My name is Helena Rauch. I’m your host.

INTERVIEWEE

...and I’m Gerd Modert, historian and archivist at Allianz. And this is our podcast on decisive moments in the History of Allianz.

HOST

The OECD assumes that global economic growth will be rather subdued next year, in 2024. It expects overall inflation in the G20 countries to reach 2.6% in 2024 down from a record high of 8.6% in 2022. Just to mention two bare figures that may seem tedious to most people. So, my first question would be: What exactly is inflation?

INTERVIEWEE

In his groundbreaking study “The Great Disorder” on inflation in Europe (during and after the Great War) Professor Gerald D. Feldman got to the heart of the matter, saying: “Though money may not be everything, virtually every significant aspect of life is influenced by the quantity and the quality of money.” And he continues “Inflation is a monetary, financial, and economic phenomenon arising from the decisions of persons acting in response to economic interests and theories, political considerations, social pressures, and cultural attitudes.”

Ok, ok, ok, I confess, all that is really a bit much. What Feldman, the great historian, tries to point out is, that inflation is more than just about prices, its complex and it’s about peoples’ lives, ideas, their fates and it must be seen in its individual historical context.
In short and simply put - Inflation happens when money keeps losing its value over a certain period of time. People feel this most painfully due to soaring prices, back in 1923, 1973 or nowadays...

HOST

Let’s take a closer look at the inflation of 1923. Before the Roaring Twenties could begin to “roar”, Germany’s financial system was about to collapse: In 1923, hyperinflation reached its peak. But what had happened?

INTERVIEWEE

Well, how can I start! It’s about World War I, the way this war was financed by the Emperor’s government, about Germany’s defeat, a problematic peace treaty, reparation payments and a politically and economically overwhelmed republic. 60 million people experienced the depreciation of their money, the mark, - from 4.2 marks to the USD to 4.2 trillion marks to the dollar – and the creation of several new currencies. Adding 12 zeros constituted more than an arithmetic exercise. For the majority of Germans, hyperinflation was a truly traumatic experience. Just imagine, all assets in German currency were annihilated. That is, entire classes of the population became impoverished and experienced social ruin. Their previous certainties, ideals and hopes for themselves and their children evaporated. Money became basically worthless.

HOST

Wow, that must have been really tough. What did that mean for Allianz?

INTERVIEWEE

Allianz was hugely affected by these developments. The fall in the value of the currency also meant that insurance contracts expired. At the end of 1923, a new currency, soon to be followed by the new Reichsmark was introduced. AND, and this was a dramatic cesura,
life insurance in Germany had to start from scratch again. The companies had lost their most valuable assets: their financial reserves invested in the local currency and the trust of their customers.

HOST

Okay! This sounds like an enormous challenge!

INTERVIEWEE

Absolutely!

HOST

Which consequences evoke from these events for Allianz and its employees?

INTERVIEWEE

The 1920s were a time of unprecedented challenges but also, of undreamt-of opportunities. Allianz had to lay off a part of the workforce that they had built up in order to cope with absurd administrative tasks in the wake of hyperinflation.

However, it has become common knowledge that crises can become a driver for innovation; and indeed, this was exactly what happened at Allianz.

HOST

That’s very interesting. Can you name a few steps Allianz took to reform the company?

INTERVIEWEE

Sure. A new, young, and dynamic management kind of reinvented Allianz in the turbulent 1920s. They developed new products and opened up new markets. Now, also the latest technological inventions played a major role for the daily business: Allianz invested in punched-card machines – cutting-edge technology at that time. Workflows were now simplified and thus made more efficient. The same applies for policies:
policies were no longer typed but printed. A huge step towards modernizing Allianz!

HOST

Allianz obviously overcame this time of hyperinflation at the end whereas many other companies failed to do so and went bankrupt.

INTERVIEWEE

That’s true, a number of insurers couldn’t cope with these events in the turbulent 1920s. At that time, Allianz merged with several of these insurance companies gaining a large number of new customers.

HOST

So, in the middle of a severe crisis, Allianz managed to acquire also other companies? How come Allianz had the financial resources?

INTERVIEWEE

Unlike most other insurance companies of that time, Allianz was not focused on one insurance type only, but offered a broad range of products and services: transport insurance, automobile insurance, credit insurance, P&C in all its forms, even riot insurance... you name it. Besides, and this was of life-saving significance: Due to a long-standing experience in international finance and a security-oriented investment strategy Allianz had sufficient available assets, comprising of reserves in foreign currency like Swiss Francs and others, and considerable real estate holdings. These assets were not hit by inflation. And then the company was also helped by sheer luck: until 1922, when inflation had really taken off, the company did not yet operate its own life insurance business and consequently lost hardly any significant reserves in local currency.

HOST

I see. Let’s move on to the next major inflation crisis the world and therefore Allianz as well had to face. 50 years after the
hyperinflation in the early 1920s, the world experienced another drastic inflation in 1973. What was the trigger for this crisis?

INTERVIEWEE

Yes, after almost two decades of continuing growth after the end of World War II the economic boom many Western economies had enjoyed came to an end. Most companies of the consumer industry and the finance sector like Allianz but also private households had prospered in the post-war years. Many more people were now able to afford travelling, owned one or more insurance products and enjoyed a higher standard of living in general. In short, many people were once again optimistic about the future.

What followed after these boom years was a period we now call the "Great inflation" hitting most Western economies. This time, it was mainly triggered by the unexpected surge in the international oil price.

HOST

How come?

INTERVIEWEE

The story behind the oil crisis is rather complex. To explain this, we need to look at the international political climate at the time. Starting in the 1960s, France reduced its dollar reserves, exchanging them for gold to reduce U.S. economic influence. This, along with the fiscal strain caused by the ongoing Vietnam War and balance of payments deficits, led U.S. President Richard Nixon to end international convertibility of the U.S. dollar to gold in 1971. Ultimately, he did this in response to rising inflation.

Then, two years later, on October 6, 1973, which was the Jewish holy day of Yom Kippur, Egypt and Syria initiated the fourth of the Arab-Israeli wars. Shortly afterwards, U.S. President Nixon decided to support Israel with financial aid. In response members of the
Organization of Arab Petroleum Exporting Countries (OAPEC), led by King Faisal of Saudi Arabia, proclaimed an oil embargo targeted at nations that had supported Israel. By the end of the embargo in March 1974, the price of oil had risen nearly 300%. And of course, this affected many other countries worldwide, as well...

HOST

So this lead to much higher oil prices. And the consequence of this increase was?

INTERVIEWEE

Overall, you can say that oil had simply become scarce. Obviously, less oil was available, but demand remained the same. Besides, the following developments lead to OPEC having more influence on the oil market and more power in general.

HOST

Was the oil crisis the only reason for the inflation in the early 1970s?

INTERVIEWEE

No, other events also had an impact on the economic situation: e.g. in the 1960s, the US Federal Reserve was already using a policy of low interest rates, similar to the situation on the wake of the current inflation. This policy was also intended to fuel the economy.

There were many other reasons for inflation in the 1970s and these varied from country to country. Political instability, high government debts and global supply shocks were arguably the most reliable drivers of high inflation rates.

HOST

What did this crisis mean for Allianz?

INTERVIEWEE
First, Allianz realized that the limits of growth had been reached in the beginning of the 1970s. Especially, the car insurance sector but also fire and burglary insurance made losses for the first time. By 1970, Allianz’s figures were already deteriorating. For the first time in decades the company suffered an exceptional drop in earnings.

HOST

So how did Allianz react? Was the company able to manage the crisis and handle inflation?

INTERVIEWEE

Yes, indeed. The early 1970s were a time of change at Allianz. A new CEO took over. Wolfgang Schieren was 44 years old, dynamic, assertive and saw himself as an innovator. With him and several other managers Allianz experienced a generational change.

Facing the challenging circumstances both internally and externally, the Allianz management decided to take action. This meant reducing costs, cutting staff and implementing rationalization measures.

HOST

These are rather drastic measures. Were they successful in the end?

INTERVIEWEE

Indeed, the financial year 1972 ended on a very positive note. And the automobile insurance actually benefited from the car-free Sundays...

HOST

These car-free Sundays were probably introduced due to the oil crisis?

INTERVIEWEE

This was just an episode, but yes you are right. In 1973, Western Germany, Switzerland, the Netherlands but also other countries decided to have car-free Sundays...
because of the oil shortage. You can imagine that a day without car traffic also resulted in fewer accidents... and this was beneficial for insurance companies!

But Wolfgang Schieren, the new CEO, was not one to be overly optimistic. He not only wanted to modernize Allianz, but also to internationalize it. And from an international perspective, the picture was rather bleak: war in the Middle East, war in Vietnam, oil crisis, inflation and all this in a climate of an intensifying Cold War. In 1974, Schieren gave a correspondingly frosty summary to the assembled shareholders: “The general economic situation, characterized by an accelerating inflationary trend, increasing cost pressure, structural and cyclical difficulties, a threatening energy crisis and growing uneasiness in view of the trends in social politics, is bound to exert an influence on growth and earnings at Allianz.”

While the inflation rate rose to 11% in the USA and soared to 24% in the UK, it soon fell again in Germany without ever exceeding the 7% threshold. At the same time, the measures to save money and make work processes more efficient had a favourable effect on Allianz and life insurance became Allianz's permanent boom sector.

HOST

Coming back to the present: considering all we have heard, I guess there are a lot of similarities of these historical periods of inflation and the inflation we are experiencing today.

INTERVIEWEE

I totally agree! In many countries, today, inflation also had a trigger; inflation today is not at least a consequence of the Russian war against Ukraine and the resulting upheavals on the global energy markets.

HOST
How did Allianz cope with the inflation in 2022 and the following months?

INTERVIEWEE

Like other companies, inflation also left its mark on Allianz, e.g., especially P&C wasn’t as profitable as usual. The cost-of-living crisis forced many households to scale back their savings. Skyrocketing inflation in Turkey and Argentina contributed to the negative impact on the climate Allianz is doing business in. Key questions for Allianz were among others: How can we face the ongoing inflation? And how can we therefore manage higher claims efficiently?

HOST

I see. This will probably be an ongoing task since inflation may have dropped, but its long-term effects will remain tangible.

INTERVIEWEE

Definitely. Allianz is expecting global inflation to fall to 4.3% in 2024. But, yes, just like you said, inflation not only stays persistent, it leads to diverse consequences both positive and negative. Allianz is also expecting that energy prices will play its role; growing wages will be a challenge for companies in general. By the way, these are very similar challenges that companies faced during and after the inflation and the oil crises back in 1973.

But for all things in the present and future better refer to the colleagues of Economic Research. Historians should limit themselves to their profession, i.e. the past and its impact on the present. When they venture into the future, experience shows that they tend to fall flat on their faces.

HOST

What do you think, what are the key takeaways for Allianz after these historic crises we’ve discussed today?

INTERVIEWEE
Allianz has a lot of experience when it comes to inflation or crises in general and can benefit from that knowledge of how to cope with tough situations. Allianz managed to overcome these obstacles in the course of history.

HOST

So, dealing with several crises over one hundred years: Allianz wrestled the hyperinflation in Germany in 1923, dealt with the events related to the oil crisis and low interest rates in 1973. And in 2023, Allianz again manages to cope with inflation and its dramatic consequences. It has become clear that Allianz has soberly analyzed the threats and opportunities in moments of crisis, taken well thought-out countermeasures and used the situation to renew and strengthen the company and make it more resilient.

In today’s podcast, it’s Gerd Modert and Helena Rauch, taking a wild ride through the history of challenges, chances and consequences of inflation for Allianz. To all of you, wherever you are, keep tuned for the next History of Allianz story...