Y 2021 Earnings Call

Company Participants

- Giulio Terzariol, Chief Financial Officer & Member of the Management Board
- Oliver Bate, Chairman of the Management Board & Chief Executive Officer

Other Participants

- Andrew Ritchie
- Ashik Musaddi
- Kamran Hossain
- Michael Huttner
- Peter Eliot
- Thomas Fossard
- Vinit Malhotra
- Will Hardcastle
- William Hawkins

Presentation

Operator

Good afternoon, everybody and welcome to the Alliance Conference Call on the Financial Results of 2021. Before we start the call let me remind you that this conference call is being streamed live on alliance.com and YouTube, and that the recording will be made available shortly after the call. (Operator Instructions) All right, that was all from my side for now, and with that, I turn the call over to our CEO, Oliver Bate.

Oliver Bate {BIO 19184930 <GO>}

Yes, good afternoon and good morning, wherever you are maybe good evening in Asia. Thanks for joining today, we had quite some movement yesterday on a few items that, by the way, we are very happy about. We're going to spend some time on it. For those of you that have not been able to listen to our press call early in the morning, I wanted to make sure that we understand we have read out and are publishing a statement with regard to Structured Alpha and we can't really comment on that as we said there except for a few facts. So be aware that if and when you have questions, we need to really stick to what we've said.

I think that's the first comment, I'd like to make the other one that was more procedural is to actually go quickly only through the presentation that I have because I think you're all very eager to talk and listen to Giulio to ask what was the attritional loss ratio in Brazil, and all of these really interesting things. So, I will be very quick in terms of where we are. Three messages we have. Allianz's delivery is stronger and stronger and stronger. Yes, we may have people that believe there's an overshadow. Some people that want to take advantage of the situation, the underlying message we have the cash and capital generation of power of the group is continuously growing. And I'm going to show you that in a second.

The second thing is we are accelerating the speed of our transformation particular in terms of making our balance sheet lighter, more capital efficient, and less volatile. The vast majority of that pertains obviously to the life insurance segment, but unnoticed by many people, we've also become one of the strongest asset managers in the world. And that is no coincidence and also no luck. It is really systematic work as we believe we have a unique value proposition at the intersection between what used to be called life insurance and asset management. And that's something I would like to highlight. And then I'm going to talk about confidence, confidence in the future as you will see in our numbers, even if they are as occasionally something we need to wrestle with we move on because we are able to absorb shocks in a way that very few others can and we obviously want to make sure there is going to be less and less volatility going forward as we deal with various items out there.

So these are the three chapters, let me just turn your attention to Page A3 now. So revenues up 6% in an environment where very few people were growing almost EUR150 billion in revenues. Our operating profit up 25% from the last COVID year, remember, '21 was still COVID and we are very proud of that. Shareholders net income slightly down because of the EUR2.8 billion net income hit that we had to take in order to address the vast majority of litigation exposure on Structured Alpha. This is really important. So we are very happy that we can finally book and take care of the investors in the Structured Alpha fund and make them whole. We are increasing our dividend per share by 13%. That's exactly in line with the guidance that we gave in 2018.

Last year we all benefited from the ratchet despite the fact that the year was very tough. And our solvency ratio is -- for 2021 is 209 even after Structured Alpha. And that is also super important.

Now, in terms of return on equity, it is after the Structured Alpha booking at 10.6 that is, by the way, higher than most insurers have it's important to notice before the Structured Alpha it would have been at 14.9 so an extremely high number and that is obviously to be normalized and Guilio will talk a little bit about the way we have to think about net income and ROE going forward. Particularly also when -- if and when accounting changes, because net income is always volatile.

We have announced EUR1 billion of share buyback you will ask very soon, I can guess do -- can we do more in this year and we obviously have to be always very cautious. But I always answer the same way, we have every incentive to not sit on excess capital, but distribute it back to shareholders if and when we see the opportunity because everybody in Allianz has an incentive to produce significant returns on invested capital and do that very well and grow. So we are always trying to get the balance right between returning capital and growing the earnings and over the last few years I think we've struck the right balance. So if and when we have excess capital accumulating, we will not have it sit idle. That's the comment I would like to make at this point in time.

Now when you look at what we've been able to deliver as the CEO, I'd like to point out, great financial KPIs are an outcome of a healthy organization, and healthy organization starts with two very simple observations. If you have the happiest customers in your industry, you will also do well and if you have highly motivated people, you also going to do well. Ideally, if you have both, you're going to really win.

So we have been focusing on driving our net promoter score, that's the willingness of our customers to recommend our services and products to their friends and family up. And now we have 84% of our businesses, that's the life insurance businesses, the P&C insurance businesses, the health insurance businesses, 84% are above market average in terms of NPS. And actually almost 60% are loyalty leaders i.e. have the highest customer satisfaction. So, as of next year, we are really lifting the ambition and are going to focus on loyalty leadership as the aspiration and target for all our businesses.

The same time, despite COVID, we have been able to bring employee motivation up. By the way, we measure that on many ways. Here is the most important one that measures leadership a equality in the eyes of our people. We call that Eye Mix, but you can also look at engagement numbers or what something we call Work Well. All these indicators have improved more strongly than we were hoping for. And particularly, in light of COVID, there was no small achievements. And in particular relative to competition, we can measure that 2021 a number of companies saw employee engagement actually go down, and we have been able to remain super strong.

So the management team is very proud of this achievement, very strong operating performance and very strong health indicators, and that can be measured in many different ways that you can see on Page A5, whether that's on customer, and I would like to point out the importance particularly in the digital age of having a strong brand, we have been now the number one brand for Interbrand for a number of years and we are very happy with that and we keep on investing but also now on brand finance we're the undisputed number one. So the brand is super important and the value that it comes with and we are investing heavily in order to make sure that translates into higher customer acquisition, lower acquisition cost and much better flow than others can achieve.

The second one I'd like to mention is not just about having highly motivated staff, but also driving diversity and inclusion now, unthinkable just six years ago, 30% of our operating profit are managed by female CEOs just last year we promoted three senior women to run our most important life businesses. Allianz Life of America, Allianz -- in Stuttgart and our Asian business all highly competent women, and so we're making a lot of progress there. As we are on many other items that reflect diversity and inclusion.

Last but certainly not least. We remain fully committed to the topic of climate change, you know that particularly -- and his team are spending a lot of time to make our investment side to fully compliant with Net Zero. And we're doing it in the way that doesn't claim something for in 30 years, but we really having targets that are short term credible and we are moving, and we are continuously moving in this one. And there are many other items that we are driving into the core of our business over the next few years. Think about the claims networks that really can be greened and other items. And therefore, we have established last year a dedicated function at the center of the group to drive that including a committee that is dedicated to the ESG issue at the supervisory Board.

So again, lots of investments across stakeholders to deliver a better outcomes. Now, better outcomes, what are we talking about? Some of you will say well, that is not something I can put in a spreadsheet. It's true, but it's very important. For us, it's very important to think about what role do we play in society for our clients. And we have spent years now on developing our purpose with thousands of employees. And we secure your future is super important I'm going to mention that when we get to asset management in a while, now you can only be successful if you have the trust of the various stakeholders. So the real aspiration is to be the trusted partner for protecting and growing your most valuable assets and that may not be just your house your car or your investment, but it also is your health and your mental well-being.

So that is what really we are focusing on and that is we are trying to take care of the things that are most important for our clients. In order to achieve that we need to make three promises and deliver on them. Number one, I mentioned that before took a strike a careful balance across stakeholders and difference to many companies we have hardwired, as in all of our incentives it's not just a slogan. We need to deliver benchmark results at scale. This is at scale, we're going to talk about more the next few years because as we are driving forward, we need to take our size and not make it a problem of complexity but make it an advantage that we can get because we have the scale that very few others have.

And last but not least. We need to show strong resilience in a fundamentally transforming world. We may have more like activities around the corner tensions between the superpowers in the world that we are in volatility will be abound and people need to be sure that we secure your future means, Allianz is there even if the going gets tough and we're going to talk about that in more detail. It means that tail risks need to be managed very, very carefully and Structured Alpha again for us has been a reminder of the necessity to look into every corner of what we do and to make sure that something like that cannot ever happen again.

Now, if we think about value creation over the next few years. It's pretty simple conceptually. It's around driving growth, and I'm always amazed when I look at the spreadsheet of the analysts as only focuses on two years, not the long term, and then growth forecasts at like 2%. How can that ever be. When you look at the last 10 years, we've been growing very well. So, that is important. We're going to drive that based on our strengths even more strongly than in the past. By the way, you see that in the 2021 numbers already, whether that is revenues, whether that is net flows, whether that is value of new business.

All these numbers are growing double-digit and have been, and we are going to grow that even further. The second thing is margin expansion. There is still a lot of upside in terms of productivity that we have and we've shown that across the business that we are highly resilient despite commoditization, think about asset management, the move to passive, our margins are not declining the way to have been forecasted and we keep on growing with record flows and the last, but certainly not least is capital efficiency. And we have worked a lot and the project Lucy which we announced on this, in December on the third and have closed on December 30, on U.S. live that's basically moving ROE of this business up, but from 11% to 19% and that's a cautious assessment based on this one movement is showing the power of leveraging private markets to drive capital efficiency.

So the move from warehousing risk and warehousing tail risk in large balance sheets to being having more efficient balance sheet is very much at the core of our strategy and while others talk, we deliver just the think about the EUR3.6 billion in capital that we were able to lift out of AG Life and it's not the end of the story. We have five levers, which we delineated in the capital markets day, many of you participated and gave us feedback. So I'm not going to dwell on that for a long time and repeat that because that would bore you. So let me just reiterate the point around life and asset management because it is still not well understood that the vast majority of our profit now and the growth is coming from life asset management and that's a good thing.

We are having very strong flows, much improved productivity, very high customer satisfaction. By the way, AGI has done a phenomenal job last year, think about the fact that they had Structured Alpha and that was made -- the highly -- staff, motivated staff productivity is approaching the levels of PIMCO now, at the same time and they had more than EUR40 billion in net flows, everything at the same time. We strengthened investment performance, given the very difficult legal environment. That is no small achievement.

Now, what I think and also are reporting, doesn't highlight properly is that the fact we have many competitive advantages, because we can combine the know how we have on our -- in our asset managers in aim with a power we have a life insurance company. So as the world didn't know what to do in terms of life products, we could leverage into new products very quickly that combined the best of life insurance and asset management. And by the way, also on the health side, in order to both create more value for consumers, because we can offer much higher risk-adjusted returns. And that also means we have higher margins as we bring in alternative assets in other more stable and higher margin products.

So, we have a true win-win. So, if you think about EUR100,000 invested through this into Allianz, we have 2 times benefits for the clients because they get a better product in the life side, a better asset management product inside of it. And we make the margin twice because we make it on the life product. And as long as we perform, of course, also in asset management. No other competitor can do it the way we can do that and I think that is totally under appreciated in terms of earnings power and earnings resilience. And also, the way we can be flexible.

Now, we talked about the transformation of the U.S. life business. I don't think it's fully understood yet. I would just like to mention that Allianz Life of America is one of the best businesses we have and somebody here in Europe suggested we sort of think about a run off the opposite is true. We are trying to use this transaction, not just to drive profitability.

But massively increase growth, because this new access to other sources of capital allows us to be more competitive in many areas. I think I have a call coming in between.

Operator

Sorry for that.

Oliver Bate {BIO 19184930 <GO>}

Maybe it's Giulio's colleagues. So they are very happy. So what is really, really important. And by the way, Allianz Life of America was in absolute terms. The biggest capital consumer in the group and now we have been able to lift EUR3.6 billion out 9% of solvency. So that also means that we are able to withstand special requirements like on Structured Alpha unabated our solvency ratio was 209 after Structured Alpha is super strong.

And by the way, volatility of Solvency II numbers are also going to continue to go down. And that's another thing I'd like to mention. 2022 is an extremely important year for us because for the first time, our strongly growing new business value is so large that we do not consume net new capital, for our new business. We've been working on that for a number of years. Giulio myself and others in order to make sure we make our new business capital light but because of what happened in the past it was declining interest rates artificially drawn it was delayed about two years as of this year, we are going to have net capital generation, even out of our new business at least no new capital strain out of the new life business and this is a watershed moment for us.

So in addition to the work we're doing on the enforce, our life business will move much more quickly in creating a lot more value than in the past. Now, one thing I wanted to mention is this one, we didn't have that in the capital markets day, but given the current environment. I wanted to talk about that for a few minutes before I go back to numbers the most important thing that we are thinking about every day and now is, how do you think about tail risk a lot of the models, including the one that we employees think about diversification as I said this morning, with Mr.Talib, that's the thing that is never there when you need it.

And the point I'm trying to make is this is not about mathematical models and capital requirements, this is about the front line of the business constantly thinking about what our exposures to our business. In the past, it used to be purely financial risk, like what is our interest rate exposure, what is our equity exposure, what is our NatCat exposure. I think that makes it, and a lot of people are talking about it now. We have worked extensively also learning from COVID on understanding. We need to simplify and particularly manage tail risk. So, reputation risk is super important as is cyber, as our sales practices. So, we are focusing along the value chain from sales and underwriting through the enforce and operations IT turning every stone and trying to find out whether we are having risk that we were not aware of and we -- how do we contain them and eliminate them. Now, there will always be risk in financial institutions. We have to however make sure we get the risks out that are not consumer it without risk appetite. And the ones that we deem consumers, we need to make sure we get paid for properly or we get out of them. So there has been a lot of improvements.

Let's think about AGCNS, everybody talks about the combined ratio, that's one very important aspect. But the volatility of the earnings is another very important measure and the team around Joe, Clamarine[ph] and everybody has worked diligently to massively reduce the volatility of the expected profit. Not just improve the profitability, and we're trying to do this for each and every business.

Now confidence. Here is a really interesting chart, that's A14 that shows you the operating profit development over the last few years. And now you see how we are really driving the operating earnings up EUR13.4 this year. Now people ask, why is the outlook still EUR1 billion. Again, we live in a very volatile world and it's just a much higher level. When we established the EUR500 million range that was -- I was the CFO 2012. We were at a much lower level of profitability than we are today. So, there's just an order of magnitude effect that's inside there, and we want to grow EPS by 5% to 7% over the next two years getting to north of EUR14.5 billion OP by the year 2024.

At least. So that's what we're going to do. And because we are so confident. We have revised as you know our dividend policy. We want to grow the dividends per share at least 5% every year or have a 50% payout. I should have started with that. So we are keeping the ratchet plus bringing it up because we know that is what really drives valuation is the growth of the dividends. And we are very optimistic about that. And as I said before, we have zero interest to sit on excess capital. If and when we can invest in the organic growth of our business profitably, we can do highly profitable investments inorganically, we are going to go out and give the money back.

By the way, let me reiterate we have no appetite for super large M&A. We maintain a string of pearls acquisition strategy in order to make sure we strengthen our market positions across markets. Think about what we've been able to do in United Kingdom, in Poland or take me -- let me give you the last one, which is Greece. It looks like a small thing, but with this acquisition, which is just a little bit over EUR200 million, we are becoming the number one property casualty insurer in Greece. So, getting to scale that we really need and the number of number one, or number two position that Allianz has in our industry is constantly growing and that's what we're trying to do. So I do thank you for your trust and your support and then now Giulio, in the usual quality will give you all the details.

Thank you, Oliver and good afternoon or good morning to everybody and as Oliver said before 2021, underlying performance has been very, very strong. You can see this reflected in several KPIs and revenue were up 6% and this is driven by all segments when you look at the operating profit EUR13.4 billion operating profit which is significantly higher than the level of 2020. Clearly in 2020, we had impact coming from COVID but even if you adjust the numbers for that, we have a double-digit increase in operating profit in 2021 versus 2020. All segments have at least achieved the outlook that we gave our self for 2021. And when you look at the property casualty side, you see, a combination 93.8%, which is higher than the target of 93%. But, as you see, also, the NatCat load was definitely more significant than the normal expectation.

On the other side a capital investment income has been exceeding our expectations. That's the reason why we were able to overachieve the outlook of EUR5.6 billion with an operating profit of EUR5.7 billion for property casualty.

The life segment has also developed very nicely with an operating profit of EUR5 billion. And then you can also see a very strong development of the value of new business and of the new business margin and then in asset management also very strong results with an operating profit of EUR3.5 billion, a strong reduction of the cost income ratio is also very positive flow. So from an underlying performance, really good delivery. And then when you look at the shareholder net income here, you see EUR6.6 billion of net income. Clearly that's the consequence of the after tax charge of EUR2.8 billion that we talk because of the Structured Alpha matter, this side still capable to achieve a double-digit ROE despite this significant impact.

When we move to the Page 5, you can see that also the quarter was pretty strong on a underlying basis so EUR3.5 billion of operating profit and all segments, has a very strong delivery. I'm sure you're going to ask me about the 93.5 combined ratio in a property casualty because considering the lower NatCat load one might have expected a better, combined ratio. I can tell you right away. They will being conservative on booking that's combined ratio also because we want to be well prepared for potential increase inflation as we go into 2021. So we are very we're feeling good about the quality of the asset combined ratio. And then for the other segments, again a very strong quarter confirming the tendency that we saw during the course of 2021.

Clearly, you see a net loss for the quarter. That's just a consequence of the aftertaste arch that I will talk. So overall it's strong underlying performance for 2021 with a strong finish from an underlying point of view. And you can see the strength also overall reflect at Page B7 for the solvency ratio, which is at 209%. So, increased compared to the level of 2007 and 2020 and this despite having taken a charge of 9 percentage points because of Structured Alpha. If you consider also for the buyback that we announced yesterday. The pro forma capitalization is 206%. So a strong labor or solvency ratio.

And when you look at the development of the solvency ratio and the driver for the solvency ratio, you can see that in 2021, we had a strong organic capital generation of about 30% pretax and if you do after tax and after dividend, you get to a double-digit increase in capital generation. And what is very important, when you look at the ACR contribution, this is all coming from property casualty. So there is basically no contribution to the ACR coming from the life business, which means on the ACR, there is even flight from the life business and then you can see what is the contribution on the owned fans coming from the life business, which is about EUR5 billion pre-tax and pre-dividend.

So fundamental is the life business is becoming accreted to our solvency ratio development.

The market conditions have been also positive and then under capital management, management action, you see an impact of 14 percentage point. I wouldn't call it a negative impact because that's the dividend. And also the buyback that we did in 2021 and then there are other elements that are flowing to that number one is 11 percentage point of improvement because of the back-book transaction that we did and clearly the transaction the United States at the majority of the impact, but we did also other transaction in Europe so in total 11 percentage point of improvement to the solvency ratio because of back-book management, and then of these 11 percentage point we have redeployed 9 percentage point in acquisition, which is clearly future growth.

So as you see strong capital management, also deployment of capital and then in tax other you see the impact of taxes as always and then clearly that's also where you see the 9 percentage point of impact coming from structure there so overall strong, solvency ratio, when you look at our sensitivity, they are pretty stable indeed slightly reduced compared to the sensitivity that we had a year ago or last quarter.

Now coming to the next Page B11. We want to show to you also some KPIs for the ESG delivery. These are also the KPIs for the activities where we gave ourselves targets. And as you see, we are well on track to achieve our targets. We need also to say that 2021 has been positively affected by the COVID situation. So somehow we need to normalize those numbers, but fundamentally you can see that there is a strong movement in the right direction. We are confident that we're going to achieve our targets for 2024, '25 and 2023 respectively. So, all in all, strong underlying delivery. Solvency cabinet position very strong. And also as you see, we are very committed to delivery also on the ESG topics.

Now at Page 13 on the internal growth and for the P&C segments, you see that we achieved a good growth rate of 4% for the year. And I don't know If you remember, but in the first quarter, our growth in P&C was negative. So, you can see there was a good momentum in the course of 2021. And when you look at the performance by companies, you see that the majority of the companies is growing. There are a couple of exceptions. Usually these exceptions are driven either by competition in motor or by our activities improving, especially on the commercial mid-corp business.

What is also to highlight is the performance of Allianz partners. You can see definitely that there is a stabilization of the revenue and clearly 2020 was very much affected by COVID. I wouldn't say that we're back to normal because the travel business is now back to normal, but there was at least a recovery compared to what we saw in 2020. Price environment is stable overall. So this means that the pricing, the prices that we get at the moment are keeping pace with inflation. I'm sure I am going to get questions from you on this topic, so I'll leave that for the Q&A later.

Now coming to the operating profit. And as you see EUR1.4 billion of improvement operating profit, EUR1.1 billion of improvement is due to the fact that we didn't had the repeat or the negative impacts from COVID of 2020. But there is still an underlying improvement, if you want over EUR300 million. When you look at the combined ratio here, can tell you that on the one side. We benefited from the fact that COVID did a repeat.

On the other side. The NatCat have been clearly negative compared to last year. There are enough results. You can see a normalization to what would be more an expected level. And then we had about 30 basis points, of underlying improvement.

Another way to look at the combined ratio is to normalize the 93.8% for the extra NatCat load or if you do that, you get back to the 93% of combined ratio that we have given our self as a target for 2021. And that's also the starting point for our trajectory to combined ratio 92% in 2024, so overall I would say a good delivery on the underwriting results and when we just look at the delivery by, weeks at Page 17, you can see good combined ratio in Germany also considering the amount of NatCats also good performance according to our expectation in United Kingdom, France, Italy, Australia has also had a good year and then you can see also very strong performance in Eastern Europe.

In Latin America we had some opportunity for improvement as we go into 2022 and 2023 and then I would say what is statement is the performance of AGCNS with 97.5 combined ratio, our target was 98% for 2021. And I can also tell you that the underlying performance of AGCNS is strong at the 97.5% that you see on this page. So, there is really some quality in these numbers. And then Euler Hermes you see also with a very good combined ratio. So, you can see that a lot of our entities are performing at a good level. And then on the investment results at Page 19, you see that the investment result is up. So, it's not down as we were seeing in the past.

And the reason for that is especially the recovery of performance in -- on the equity side. Clearly last year, the amount of the dividend out of public equity and also private equity was lower compared to the normalization distribution that we saw in 2021. So fundamentally, good delivery on the operating investment results. And as I was saying before, this is offset if you want the higher NatCat's load at least relative to our expectation. This explains why we ended up with EUR5.7 billion of operating profit, which is better compared to the outlook of EUR5.6 billion.

Now coming to the life segment. I can tell you I'm very pleased about the performance of the life segment. At Page 21, I remember that at the end of 2020, we had a lot of conversation about changing the mix. And one of the questions we were getting is can you change the mix and still keep the production going? And as you see, we are being capable to achieve a very healthy level of production. When you look at the numbers here you see a growth rate of 30%. Obviously here, there are some one off to be considered. But even if you adjust for the one-offs, the growth rate of our production was above double digit.

So from that point of view, strong commercial delivery and this by change in the mix and achieving a new business margin of over 3%. So I can tell you the delivery is being very strong and very consistent across all our entities.

Now, looking at Page 23 of the operating profit. You can see a nice increase of the operating profit compared to 2020 of about EUR650 million. And you can see that all profit sources contributed to this increase, you can see the improvement coming from the loading fees, from the investment margin, from the technical margin. And then as always, when you look at the expenses, you need to knit them together with the impact of change in that so obviously the primary drivers have been driving the performance of the life segment. And then when you look at the operating profit by line, you see also that all lines have contributed to the strong delivery in operating profit.

To Page 25. On the value of new business, you can see a strong increase the value of new business of 45% with a value of new business 2.5 that's a very good number. And I don't know if you remember, but three years ago, we said we want to grow value of new business by 5%. And despite very challenging market conditions compared to the market condition that one could foresee in 2018, despite this more challenging condition we have been able to achieve a 5% compounded average growth rate of our value in new business.

New business margin is also very strong, it's over 3% and pretty stable across all entities which is indeed, a tendency to an improvement and then on the operating profit, I like clearly to highlight the performance in the United States with an increase in operating profit of 50%, here we have to say, 2020 was a little bit weaker because of the impact to the volatility in the first quarter 2020 and 2021 has been very, very strong because the volatility in the United States or the -- has being very, very nice. So you have a sort of swing from a softer performance to a win performance, which is also in this significantly higher than our expectation. And then another area where we had very good results is Italy with an operating profit of EUR450 million. Italy is the first country. One of the first country that embraced the journey to capitalize product, and selling unit length that you can see that now, this journey is delivering over EUR400 million of operating profit. So strong delivery, also from our Italian team.

And now at Page 27 on the investment margin, you can see that the current yield is going up by about 10 basis point. And that's because of the normalization of income coming from, especially from equity, but what is more important you see, once again, that we are taking down the minimum guarantee, in this case by about 10 basis points. You can be assured that this churn is going to continue. So from that point of view, you can see definitely that there is a reduction of the guarantee level. So from that point of view, we are very confident that we're going to be able to keep the spread between a current yield and minimum guarantee as we move into the next year.

So overall, strong performance in the life business, stronger operating profit, strong new business value generational change in mix, we also did a couple of back-book transactions. I would even a benchmark transaction like the one we did in the United States. So I will say great, great year for our life segment and for our franchise in this area.

Now coming to asset management, overall EUR2.6 trillion of assets under management, including the proprietary assets and when you narrow down on the third party assets EUR2 billion -- EUR2 trillion of third-party assets with a growth of 15%. And when you look at the growth, across the asset classes and regions, you can see that all regions and all asset classes are showing growth. So there's for me a sign of quality and also of sort of diversification that we have.

We see a similar trend by the way, on Page 31. When we look at the right hand side. You can see that how is the composition of the EUR110 billion of inflows that will got and you can also see here that we are not just growing fixed income and it was positive flows in all other asset classes and also from a geographical point of view, you can see a nice -- a nice spread across the different region. Also, we are kind of used to PIMCO, making EUR60 billion of inflows. I think the big nose is clearly AGI making over EUR40 billion of the inflows. And as Oliver was saying before, this despite challenges and also despite the fact that these guys just in 2020 did a major restructuring. And usually, when you have a major restructure, you might not necessarily expect a significant growth. AGI has been capable to do both, do a restructure and then also realize significant growth.

When you look at what this means from a revenue point of view, you can see the nice development of the revenue with a growth of 14% and the growth is especially pronounced at AGI. You can also see stable fee margin in total. So that's also important, we don't see necessarily trajectory of a weakening of the fee margin, we saw a lot of stability indeed over the last quarters.

All these leads at Page 35 to an increase in operating profit of over 20%. Also, when we adjust for the so-called volatile items which are the performance fees. We still see about 20% increase in operating profits, so very strong performance. And then clearly what is really nice is also the development or the cost income ratio, at AGI with an improvement of 8 percentage points, so strong delivery in asset management, strong delivery from PIMCO, and I will say very strong delivery from AGI. Corporate I'm going to skip it, it's basically flat compared to the level of last year.

And now we come to Page 39 on the non operating items here you see that the realized gains have been more pronounced than in the past. This has to do also with the Lucy transaction about 1/3 of the realized gains are coming from Lucy. And then also, you can see the level of impairment was in 2021 very low and then in other you see, basically the pre-tax charge of Structured Alpha. They are you see also some deck, some deck of sets to the realize gains on the Lucy transaction and then, when you put it all together, you get to a net income of EUR6.6 billion for the year, which to leads to a double digit ROE anyway, so I'd like to reiterate this message that it's still double digit ROE despite a significant one off impact.

And now we can to the outlook at Page 41, overall EUR13.4 billion for an outlook for 2022 as you might have recognized by now we have a tendency also to set the outlook at the label, of the preceding period. So we keep, faithful to this kind of tradition, the underlying assumption here on P&C for the EUR6 billion of operating profit. We are assuming a 93% of combined ratio and we have a tendency to be fairly conservative on the investment income on the right side, we have normalized for the extraordinary performance due to the low weeks of Allianz Life. So we did some normalization there and for asset management, if you will also design normalization if you want for the performance fee level which was a little bit more elevated in 2021 compared to what is an average over overtime.

But again, with the EUR13.4 billion outlook for 2022, we feel pretty confident about this level we are going to have clearly conversation about where we stand in the course of the year.

And with that, I would like to open up to your questions.

Operator

Yes, think you Giulio and as he said, we are now happy to take your questions. Before we start the Q&A session, I would like to ask you one favor. If you join us via telephone, please mute your YouTube live stream while you're on the air because this avoids a potential echo.

All right, and that said, we will now take our first question from Peter Elliot. Go ahead Peter.

Questions And Answers

Operator

Question And Answer

Yes, thank you Giulio and as we've said, we are now happy to take your questions. Before we start the Q&A session, I would like to ask you one favor. If you join us via telephone, please mute your YouTube live stream while you're on the air because this avoids a potential echo.

All right, and that said, we will now take our first question from Peter Eliot. Go ahead Peter.

Q - Peter Eliot {BIO 7556214 <GO>}

Thank you very much. Hopefully, you can hear me? So, I had three questions, please. The first one was on the share buyback and just wondering if you can share any timing, you have in mind of that, so do you have an end date in mind. For example, for that 1 billion. The second question was, at the Capital Markets Day, you targeted 4% growth to get to sort of 14.5 billion operating profit. And obviously, from the starting point which is a bit higher than new, indicated at the time, we need to return a 0.5% growth.

I mean, we probably used back-up performance fees, but would it be safe to say that the starting point is a bit higher than you're expecting and therefore, the target more achievable? And then finally third question. Just wondering on your non-life businesses, which may be a getting the most management attention at the moment. I mean, I guess Turkey was a high combined ratio and you're pointing to difficult markets. Is that perhaps the main focus at the moment or maybe just some insight on where you think there is still room for improvement? Thank you.

A - Giulio Terzariol {BIO 17125489 <GO>}

Hi, Peter. I can take your questions. On the share buyback, the expectation is that we are going to complete this share buyback by the summertime. So, that's the timeline for the 1 billion buyback. On the capital market day and baseline, but first of all because you're coming where we think that the target is more achievable, we think the target is achievable, so our message in the Capital Market Day, was that's a plan, that's not an ambition. Now, if we want to talk about the baseline, in the Capital Market Day, we also said, look $13 billion was the basis, how we did the presentation.

We also said, we expect to be a little bit higher than $13 billion, so from that point of view, I would say nothing has really changed, clearly compared to what we know at December, 3rd and what we know now. So the point is again, the confidence that we have about achieving our targets in 2024 is stronger, didn't change because of six weeks.

And then on Turkey, first of all, let me say that Turkey, yes, the combined ratio is high, but the investment income is also very high. So if you look at the numbers of Turkey in reality, in local currency, Turkey had a growth in operating profit and we are speaking anyway of an RoE which is north of 20%. And now we can have a philosophical conversation about what the cost of capital in Turkey should be. But I can just tell you that the company is operationally doing very, very well.

And now clearly we will have to go through a time of uncertainty because of the situation there. But Turkey is not a company that we see it struggling, we see Turkey as a, as a strong company, delivering also a good performance for the environment. So that's not an area of concern. In general if you ask me, what are the area of focus, clearly, we are focused on bringing the combined ratio down from the 93% normalized to 92%.

And as we discuss also in the past, one area of focus is clearly the improvement in MidCorp. And then we want also to make sure clearly that we are preserving the profitability in retail, and also that we might see more growth -- even more growth in retail. On the light side, the message is we want to continue what we are doing, because we think the strategy is paying off very nicely as you have seen our numbers and for asset management.

I will say also you see the delivery in 2021 is being very consistent quarter-over-quarter. So, we are very positive on the franchise. And then as always, if rates go up and down, this can create some short-term volatility, but the franchise is very strong and I would say never been stronger at PIMCO/AllianzGI as it is now.

Q - Peter Eliot {BIO 7556214 <GO>}

Right. Thank you very much.

A - Giulio Terzariol {BIO 17125489 <GO>}

Welcome.

Operator

Thanks, Peter. And we'll take the next question from Will Hardcastle of UBS. Go ahead Will.

Q - Will Hardcastle {BIO 22230376 <GO>}

Afternoon, everyone. Thanks for the question. Let me state the question. So first of all, I mean you called it there's going to be a question on inflation. So I'll ask it, but just thinking about how it's impacting the P/C business and you mentioned, you'd held something back on the actual end year booking, what about unreserved? Anything happened there? And which lines should we be concerned or just being on a watch list? Or are we just talking about a general provision at this stage? And the second one is it regarding the provision today the Structured Alpha, I guess you mentioned the vast majority of investors are being made whole can you just explain to me what isn't included in this provision -- and the potential where incremental costs can arise hopefully that's able to be answered obviously, without any numbers, but just what could still arise? Thanks.

A - Giulio Terzariol {BIO 17125489 <GO>}

So, I can pick up these questions on the stats of the Alpha we cannot give you more information. We can just tell you that the provision includes more than the settlement, we achieved with the major with the major investors, but we cannot give you more information. One day when this story is going to be behind us we will be able to give you all the information, you wish. But I think you can appreciate that we made, we are keeping true to what we say. We say we want to put some numbers around this topic by the end of the year and that's what we are doing. We try to get to a resolution in a fast way but in a considerate way, so that's what I think you can see that we are doing exactly what we said that we are going to do but that's all for Structured Alpha for the time being.

On the inflation side. I tell you when we look at the inflation in a property casualty, first, I can tell you that, as of now, we don't see inflation which is running faster than what we have in our pricing. And trust me. We are having a lot of conversations with our OEs. So we have been indeed looking at the inflation already starting next year. So it's not been something that we put on watch at the end of 2021 beginning of 2022. We start watching inflation already basically, I would say, during the summer of last year, we put this on our agenda. When we look at the trend, anyway, I can tell you that we see some more inflation on spare parts, but for the time being nothing really gigantic, but there is definitely some inflation in spare parts.

But just to give you also an idea, when you have a material damage, about 40% of the -- of the damage is going to be spare parts. The rest is still labor, or could be also painting or this kind of thing. So, from that point of view, don't think that if you have any inflation, which is running high single-digit on the spare parts, you can assume this is going to be a high single-digit inflation of the total claim. And then a lot of our claims are bodily injury. We don't see pressure on bodily injury. And then as always the answer is going to be different country by country.

So we see some clearly pickup of inflation. Also in property to a certain degree, but for the time being, I will say that's all within our expectation, we are clearly monitoring the situation very carefully and if we -- the message that we sent to our OEs is, if you see an increase in severity because that's the way we talk. You have many things flowing into the severity if you see an increase in severity instead of wondering whether there's noise, you just assume that there's inflation and the react as fast as possible.

The reaction by the way is not necessarily just on pricing because, we always think that the way to offset something bad is pricing. There are other levers that we can pull in order to mitigate inflation. So we are spending a lot of time on steering. You might also remember that we put a lot of effort on claims already, in the course of 2021 indeed. That's one of the top priority of Oliver, how we even improved further in effectiveness and efficiency in claim.

So, our reaction and the plan that we have is not just let's put rate increases, but also how we work on the claim side to minimize, the impact of inflation.

Q - Will Hardcastle {BIO 22230376 <GO>}

Just a quick follow-up. I mean, it doesn't sound like that. The action being taken is you know awareness on the front end on -- and actions taken on claims management as opposed to looking further behind and thinking about the reserves. Is that fair?

A - Giulio Terzariol {BIO 17125489 <GO>}

Okay. Sorry. Yeah, okay. Oliver is there, I can tell you that also, this part of the component absolutely, then is going to be different country by country. But in some -- in some countries, where you can see also the competitive environment is very -- is very tough. One thing that we did was also to make sure that we have a healthy level of reserve, because we know that we're going to see some increase in claims and so we will need to use some additional reserve strength to set that. So definitely, we looked also at increasing -- putting buffer specific for inflation. So, that's what we did and I can tell you it's not a small buffer. So, it's an appropriate buffer that you want to put in a situation like this.

Q - Will Hardcastle {BIO 22230376 <GO>}

Okay, thanks.

A - Giulio Terzariol {BIO 17125489 <GO>}

Welcome.

A - Oliver Bate {BIO 19184930 <GO>}

Yes. Maybe I can just make an additional comment, otherwise I'll get bored. I think one of the reporting things that we don't do is when you look at premium growth or price increase, that is just half of the story, particularly in commercial lines. What we would normally have to report in the future, at some point is exposure adjusted price increases.

So a lot of the things we've done in commercial lines over the last two years and not just AGCS also in MidCorp is to completely change the exposures. So whether that's terms and conditions, deductibles exposures to highly exposed sectors, in the property side, particularly we have been mandating cancellations of the high exposure risk, even for risks that haven't seen a claims in the last five years. If the technical price to actual price is not consumer rate, we are reducing, have been reducing exposure. So if you were to equalize the growth numbers understating really the pricing strength that we have been gathering in commercial lines and hope we will come see that coming through the results over the next few months and years.

Operator

Thanks, Oliver. Okay, we will now take our next question from Michael Huttner from Berenberg. Michael, go ahead please.

Q - Michael Huttner {BIO 21454754 <GO>}

Thank you so much and well done for the hard work. It's -- and I have two questions. And in a funny way, they're not -- on the back page and I think B-47, you show your cash flows and you did. So the total figures but now we see the detail and non-life seems to deliver less and less cash flow every year. It seems to be at a record low level of 2.6 billion for 2021. Just wanted if you could explain a little bit what's happening here and maybe what the outlook could be. And my second question and I think you alluded -- wasn't being the -- shows in -- offshores or whatever in January in sequential businesses. And then the last one on non-life reserves. So I was looking at the SFCR and the excess reserves, which included -- to best estimates have been coming down and I just wondered if the actions you've taken so to, to add to reserve to affect inflation et cetera, would that actually lead to a higher number here or does it stay hidden. Thank you.

A - Giulio Terzariol {BIO 17125489 <GO>}

Yes. I can take this question. Starting from the last one, we don't have in this -- SCR report, any indication based estimates versus non-best estimates. So there is, I'm not so sure, what numbers are you looking at. But there is not an information that we provide. I can tell you, anyway, that's the definitely the margin didn't go down in 2021, compared to what we had seen in the preceding period.

But yes, I think you're now looking at the and you're not interpreting dynamic, whatever you are looking at in the right way, but I'm sure that Oliver can help you with that. On the flows for PIMCO GI in January, we had 3 billion flows in combined and more or less half, half between a GI and PIMCO. I want also to say if rates go up, we might see clearly someone, negative flows at the beginning might happen. This is still a positive anyway for GI and especially for PIMCO because, every time we asked mainly the CEO of PIMCO, you like to have rates going up or down, it's going to go for rates up even knowing that in the short term, this is not necessarily a positive, but when you look at the midterm, you don't need to look long term. Just look at the mid-term, that would be definitely a positive.

So, if you think in present value of revenue and profit, definitely higher rates, not a negative for asset management. If you focus on a quarter, that's a different story. But I think the right way to look at that is a little bit of a present value instead of a quarter. And then on the cash flow, okay, what you have to consider is in 2021. Clearly, there was an impact of COVID on the P&C side. So, we got a little bit less than for example from Allianz Germany last year, because in 2021, because of the 2020 impacts, but also then consider that especially where we have composite insurance companies, which is can be the case also in Italy, in France also that's the way we look at the business. We can get dividend, excess capital from one entity or the other depending on the situation.

So fundamentally, I will not look at the segment. You should at least combine property casualty and life together and that would be maybe a best way to look at that. Fundamentally overtime in property casualty. We would expect the remittances to be about 80% of the net income that should be, depending on the growth rate, but they should be definitely a baseline. If not higher for the profit that you put the dividend that we get out of the property casualty side. Hope this helps.

Q - Michael Huttner {BIO 21454754 <GO>}

Thank you so much.

Operator

Sorry.

Q - Michael Huttner {BIO 21454754 <GO>}

Thank you. That is wonderful.

Operator

Yeah, thanks Michael. By the way there was three questions not just two. But anyway -- no problem, I'm just joking. We will take the next question from Ashik Musaddi from Morgan Stanley. Please go ahead Ashik.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Thank you and good afternoon, everyone. Just a couple of questions I have is. First of all, I mean, can you give some color as to how this 1 billion buyback has been achieved, how did you get to this 1 billion number? I mean historically, half-yearly was kind of 750, full year was like 1.5 billion. So how do we get to this 1 billion number and just linked to that, I mean would you say that, that this Structured Alpha fund or and/or discussion with the regulator is playing a part in this coming at this 1 billion number. In terms of first one would be very helpful.

Secondly, there was a strong premium progression in the P&C business in fourth quarter, which is what we saw like in third quarter as well, but would you say it is just a base effect or would you say that there is some movement from your side to start getting a bit more on the top line as well. So that would be the second question. Thank you.

A - Giulio Terzariol {BIO 17125489 <GO>}

So maybe starting from the buyback, we thought that, we have basically 4.4 billion of dividend and when you add another billion of buyback, we are at 5.4 billion of deployment, then we want to see what happens during the year. So we didn't necessarily over think, whether it should be 1 billion, 1.5 billion. We just felt that, to start with this amount and then to see how this situation is going to evolve and then we take further decisions as we go into the second part of the year. But don't think that there is a lot of overthinking, about whether they should be a little bit higher or not. On the point about the growth that we see coming clearly, we had some strong growth in the fourth quarter, you can also see, in reality if you look at the analytics that some of the growth has been driven by AGCNS partners was very strong and also Euler Hermes, so but even if you adjust for the Global lines, you see about 7% growth rate.

Now there is a thing that you need to consider, this is also growth rate compared to the four quarter 2020 and if you look at the trajectory in 2020 clearly to you have a situation where we got into COVID in Q2, and then there was going down Q3, Q4, was still a lot a lockdowns and then Q1 2021 was still pretty down, and then you still you see a recovery. So, thinking about the sort of concavity, so that's the reason why you're going to see a growth rate which is a little bit more pronounced than normal. This said, if you ask me the expectation for 2022, is a growth rate of I would say 4%. Let's say 3%, there will be low to be honest, but you never know what the environment might be. And we might go all the way to 5% depending on how the economy is going to evolve. So, we'll say a range between 3% and 5%. And my pick is about 4% growth for 2022.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Thank you.

A - Giulio Terzariol {BIO 17125489 <GO>}

Welcome.

Operator

All right. Thanks, Ashik. And we will take the next question from Andrew Ritchie, Autonomous. Andrew, please go ahead.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Hello, hi there. First question, just on the cost income ratio on the asset management business. Do you, could you just tell us, is there any investment to occur, also, where of some insulation and staff costs, most of the eight, most of the listed asset managers, have been guiding to higher cost income ratios in 2022, to reflect that. Could you just give us some sense of that, but also could you remind us of the flex on the cost base of asset management in the event that assets are lower given market movements.

I think in the past you said it's like a 60/40 fixed variable, but could you just remind us on that. I'm just trying to sense what the flex is. Should the asset, should the environment be trickier. The second question; the movement interest rates had in the past called volatility, ticking the German life investment spread as interest rates rise. I think you have some interest rate swaps that get negatively marked. Could you remind us what the volatility could be as interest rates rise to the investment margin? And then the final question, is just a broader question for Oliver maybe. I think, you said, you'd learned lessons from Structured Alpha. In particular, that you had precipitated as sort of thorough review of products sales practices, all that kind of -- those kind of issues.

Is that really completed? Have you really done that in depth across the group in what's been a relatively short time? Or is it still work in progress? Thanks.

A - Oliver Bate {BIO 19184930 <GO>}

Andrew, the issue is a formal answer now. We've done a lot of things, but until the U.S. authorities have issued their statement of facts as they call it, I think you know that we are not allowed to comment anything also an internal investigation and the outcomes but rest assured, we've been relentlessly. By the way, I would also like to remind everybody, we actually did completely change the top management team of AGI at the end of '19. And we started before the financial flash crash to work on massively simplifying.

So it's a bit unfortunate for the team at AGI and I like to express that, that what happened, happened. So we did say right before that we want to reduce number of products and strategies by more than 40% and we have done a lot of that heavy lifting already. You see that in the cost to income ratio by the way. So complexity has been reduced, productivity has been increased and this is ongoing and we do that across our universe now, and consistently and it starts with a question of what products do we really want to offer relative to the risk return profile, that we feel comfortable with.

So, the first question is, do we need to be in certain products, really, even if they are attractive and the second one question is, how do we then look beyond models risk model, Solvency II which true risks lie regardless of capital charges and how do we -- how do we deal them with them. And again, not by adding, safeguarding functions on all kinds of protocols, but really aligning incentives, selecting the right people, and things like that.

But again details, we can discuss if and when we have addressed that with U.S. authorities and I beg for your understanding, really that we discuss it in depth. Once we have done that hopefully soon. But the first major milestone we have done, I'd like to reiterate, because of spin not well understood that we did not just intend but we have settled today and early in the morning with the vast majority of the exposure in terms of investors. And we have taken beyond that some caution also on beyond the investors on some of the litigation fees, but that's as much as I can say today.

A - Giulio Terzariol {BIO 17125489 <GO>}

Perfect on the other questions on the questions regarding inflation for asset managers, I can tell you that in the U.S. we see some wage inflation. So that's definitely the case, we see these also in PIMCO, to a certain degree. PIMCO is basically a philosophy that the cost to income ration should be below 60. So from that point of view, I don't take concern that we're going to be able to stay below that level of cost to income ratio, but clearly you might not see the 57.4 that you saw in 2020-'21. So, there is some inflation that's more pronounced in the United States as opposed to other geography.

On your questions regarding the marginal cost to income ratio, it is the reverse. So now we have 60 PIMCO is more like 40. So at the end of the day, if we lose 100 of revenue, we will say the profit margin is to go down by about 60. So that's the way to think about how we look at an impact all over revenue. What does this means after cost for our profits. And then you had a question on the swaps that we have. This is mainly indeed Allianz Leben. And by the way, we are using hedge accounting to the extent, we can use hedge accounting, but there is clearly some part of this these position that we cannot put through a hedge accounting. I will tell you that this situation is in reality manageable because yeah, if rates go up we're going to see a loss on the path, which is not on the hedge accounting. But we have enough other levers that we can pull in order to get to the desire operating profit. We have a lot of buffer and we have -- participation too that can be utilized in order to stabilize the profit.

So reality, the only issue is if you have a spike of interest rates very ends of a quarter or let's say of the year because in that case clearly, we cannot activate some of the labels that we have at our disposal. But as long as we have time to react to an increase in interest rates, we have things that we can put in place in order to stabilize the profit at that the targeted level.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Thanks very much.

A - Giulio Terzariol {BIO 17125489 <GO>}

Welcome.

Operator

All right. Thanks, Andrew. And we will take the next question from William Hawkins. Go ahead Will, please.

Q - William Hawkins {BIO 1822411 <GO>}

Hello gentlemen, thank you very much. My first question feels slightly redundant because you've just published your business plan. But all of it, since you showed that Slide 12 to focus on diversification versus tail risk, I wondered whether you ever kind of reflect the maybe reducing the footprint of Allianz could be a constructive way of reducing the tail risk. Its eye-catching, that every so often, it's a tiny business that causes a disproportionate amount of problems for Allianz.

Now you may just look at that and say well that's part of the cost of being a successful diversified business, or it may just be the, if everyone is spread so thin, there's always going to be something which is creating a bit of a headache. So the thing as you showed that slide, I wondered if you can just talk about the temptation to reduce the footprint overall.

Then secondly, please, Giulio, I think it's now at least three years when you've been telling us your investment margin is going to be about 75 basis points and ends up being about 85 basis points, which is lovely. But I'm kind of wondering why is it going to be 75 this year? Can you just kind of help me understand why 75 is the magic number?

And also, does there come a point when if you've effectively taken 30 basis points that you didn't intend to take over the past three years, and the investor margin is ultimately a zero sum game, are you just accelerating profits, that means at some point that figure may decline slightly more quickly. And then thirdly please, on that Slide B9 when you're showing the Solvency walk, what do we think the SCR business evolution is going to be this year. Is it -- presume it is going to be small in either direction, but is your SCR going to be consuming capital or reducing capital in 2022, please. Thank you.

A - Oliver Bate {BIO 19184930 <GO>}

Well, very good question and something that we spend in terms of the portfolio, spend a lot of time on. Actually, I tend to disagree because AGI is a super big business. It made more than 900 million in profit, 40% up by the way, had the largest flows ever. Third largest in the equity, so unfortunately, the issue is in there from a significant business not from a small one.

The question is actually more around what we had before the question, also from Andrew. What are the right products in elements to be in and are we comfortable with them under severe stress scenarios right, something might work very, very well under sort of assumed normal situation. But when a tail market event hits are we then still comfortable.

And the vast majority of our businesses are rock solid even under severe stress. Let's take Turkey that we just had discussed earlier, many competitors, find it completely impossible to operate in this environment. We are the market leader and we're returning more than 20% RoE by the way in euros, and that is really important. So, what we need to do is wherever we operate, we need to be a market leader. So the answer is, we need to get out of businesses where we clearly are not the market leader and we cannot deliver best-in-class performance and that's what we do. That's why in '16 we went out of Korea because after trying a long, long time, since 2001, we convinced ourselves, we couldn't do that and that's why we're getting out. And again AGI pruned or is pruning 40% of its portfolio in order to make sure that we're not just cost wise, but also exposure wise getting to the things that we should be focusing on.

I have to tell you, I find these focused strategies a bit a bit ridiculous, because in reality, people sell a lot of their businesses that they don't know how to run, book an accounting gain and then call that focus. And there is a very nice thing that nobody ever shrank to greatness. We really believe that we can build scale and do that, but we don't do that by buying large companies, we do again as I said, string of pearls. And we need to make all. If we can get to leadership position in a certain period of time, we are going to exit. And you will see that as we think about it, or we need to transform.

Let's talk about AZ Life. Everybody and their friend and mothers had to spend billions to get into the U.S. Life Market in the 90s, and then in the middle of 2000s, they had to go home with their tail between their legs. We have built one of the most successful life companies in the United States and people still said we don't like the exposure. And I actually understand that given the size of the balance sheet and the capital consumption, so we've now worked two years on, how do we leverage private market capital in the way that gives us much better returns and much better growth. And that's what we're doing.

So we are transforming really the most capital consumptive, part of our business and turning them into fee based businesses. Will there be volatility, absolutely, the issue is more working, not on the small things that create the problem, but making sure that the large ones AGCNS by the way, is also a large --are run with the same intensity and diligence as everybody else, which means we need to move away from cross-subsidies. I think the issue and the culture is more, we're doing so well that people can become complacent. And that's the one thing we need to fight, we need to be having the fighting spirit. We need to make sure that some people don't bet on the strength of the company. And that is really the job for the next few years. Make sure that all cylinders fire not just eight or nine out of the 10.

A - Giulio Terzariol {BIO 17125489 <GO>}

Yes, and on your question, maybe starting with the first one which is on the investment margin. First of all, I'm doing like the one that says the stock market is going to go down, still keep always saying that hoping that one day is going to be right. So that should my philosophy on this one. But seriously, I would say we might be slightly conservative maybe in our guidance, but fundamentally that I have few issue why the investment margins has been high in the last years compared to what we would expect.

This year or last year in 2021, definitely the volatility is being very low. I saw there's a push in the investment margin because of low volatility coming from the United States. In the case or 2020, what we put also in the investment margin in the case of Allianz Life is any positive unlocking in VA, or also in FIA because they can affect basically the line item that goes into the investment margin. So, from that point of view, positive unlocking, and we had positive unlocking, especially in 2020 in Allianz Life, they have a positive impact. Technically speaking on this investment margin. So, from that point of view, I tell you 86 or 87 basis point is definitely not the investment margin that we expect on a normalized level.

I would definitely say that the expectation is should be below 80. And now we can discuss with 75 is maybe slightly on the conservative side, but I'm pretty confident that to normalize expectation is below 80. Now one thing that you need to keep in mind. If you do your math, you cannot assume that a reduction in the investment margin is one to one, a reduction of the operating profit because there is a deck of sets. So that's very important every time you do your calculations or say okay, if Giulio tells me there is 10 basis points, less of investment margin, you start doing your math and you say, this is one to one equal to profit. You can assume that there is about 30% of the echo sites on every reduction that you do on the investment margin.

And that's how you can somehow get to a proxy of the operating profit impact of normalizing down this number. On your Solvency II, business evolution question I can tell you that from the life side we expect basically no contribution, from -- on the SCR because right now, we see that the release of SCR coming from the in-force running out is in line with the -- with what could be the increase in SCR coming from the new business. So from that point of view, the expectation is basically, that we are going to see this also in the future. If not, a even more pronounced, this kind of tendency to have even a release if you want to slide release of SCR. And then the increase in SCR is going to come from property casualty, and I can tell you that if you for -- we apply as a rule of thumb, you can apply something about 30% to the NPE growth, and that is how you can somehow there to a proxy of the increase in SCR.

So that then that's what you see also basically, now the numbers in 2021, is all driven by NPE growth and if you assume something between 25% to 30% of ratio to NPE, you get a good proxy of what the SCR might be doing. Is that helpful.

Q - William Hawkins {BIO 1822411 <GO>}

Thank you.

Operator

All right.

A - Oliver Bate {BIO 19184930 <GO>}

Will, just on a facetious note, AIM has been exceeding our expectations with the shift to alternative assets. That has really bolstered our returns. The old assets are substantially more profitable. By the way, not just on the life side, in terms of returns, but also in asset management. However, they also tend to be more lumpy in return. So, the one thing and we'll know that it's going to come from IFRS 17 II, is these things are bit more lumpy, and that's why we are very cautious in terms of forecasting average numbers.

So, numbers will be risk-adjusted higher, but they may be a little bit more volatile. Therefore, we'd rather be a bit more conservative as we tend to be.

Q - William Hawkins {BIO 1822411 <GO>}

Thank you.

Operator

All right. We will take our next question from Vinit Malhotra. Vinit, please go ahead.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes, thanks for the opportunity. Just so very quickly one. One is on the target. So Giulio, you mentioned about history, when I look at history, I mean except maybe the COVID year 2020, the actual have always been very close to the top end of the guidance. And now we see 14.4 billion as the 2022 outlook upper limit. And that's so close to the 2024 target. I mean could you just talk about scenarios where this could actually happen this year and then obviously then we have to think of higher target for 2024. So that's just the first question.

Second question is on the P&C The P&C in Spain MidCorp is being mentioned. Now from just hearing many of the companies. It seems MidCorp has been the -- sort of attractive business. Could you just talk about what happened there or and you mentioned conservatism. Is that more conservatism or is there some issues you'd like to flag on that side.

And lastly, capital efficient products in life, I think 415 million, is probably the highest quarterly operating profit, and in the past, maybe two years ago. I've asked you that you are seeing a big -- change in the profit numbers of capital efficient products. Is that the accounting effect, or is it what we just heard from Oliver about how the asset management is coming in and helping create more value. Thanks.

A - Giulio Terzariol {BIO 17125489 <GO>}

Okay. So, the first question was on the outlook, and how we go to the 14.4 billion. I would not be focused too much on the 14.4 billion, because I will say to get to that level, we should really have the opposite of the perfect storm like very low NetCat level, very strong capital market. So, a good level performance fees, that's how we can get there. I will say that, as you said before, we have a tendency to end up in the upper half of our outlook.

And yes, we will see what happens in 2022, but I think this could be more reasonable expectation, suppose we go all the way up to 14.4, but clearly we see very benign market condition, we see very lower NetCats that could push us clearly to a very high level, but that would also be not necessarily what I will call a baseline. So that's on your comment about the $14.4 billion what could bring us there. On, Spain on MidCorp the issue there has been also large losses or clearly when we look at large losses, we always very cautious because it's too easy to say large losses are just volatility and they're going to normalize a way. That's the reason why we will clearly take a close look at the performance of that book and anyway, we also put in rate increases there, so but fundamentally, the issue is being in accumulation of large losses, but we don't take this necessarily as an explanation to say everything is fine. And in 2022, there will be no issue also, the motor performance is good because there is clearly also, still a low frequency in Spain, but we are also kind of prudent in this things. So we might see clearly it increasing in frequency of potential in severity, as we go into 2022. So there was also some element of prudency on that space, so there is little bit of prudency with respect to motor and then also large losses that have affected MidCorp business.

And the last question was in the capital efficient products, what we have seen is there is the combination of Allianz Life delivering very strong performance in fixing this annuity and also in the so-called RILA, which is the registered index life annuity, which is what has replaced basically the OVA business. And also what we see is clearly the and we said that's also in the past that there is a trajectory coming from Allianz Leben. In the past, you didn't see much of a profitability in that line of business coming from Allianz Leben because due to the accounting, the way we do the accounting, there was a sort of strain also under IFRS, the current IFRS. And now this strain is going away because the book has achieved clearly a different size. So you can really -- if you want the growth in profit is over proportional compared to the growth of the assets under-management the business because of these accounting issue. So you see maturity if you want.

Think of that, Allianz Leben capital-efficient product was almost like a start-up. And now after three, four years, clearly you see performance kicking in and also we are pushing this capital efficient products also in other markets. But the main driver of this performance Allianz Life because of the strong delivery there and Allianz Leben because of the strong delivery with this sort of embedded growth because of these accounting going -- going down.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Right. Thanks very much Giulio.

A - Giulio Terzariol {BIO 17125489 <GO>}

Welcome.

Operator

Thank you Vinit. So, the official time for our call is over, but we still have a couple of analysts in the queue, so we'll add a couple of minutes and try to get everybody into the call. And we will take the next question from Kamran Hossain from JPMorgan. Go ahead, Kamran.

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi. Thanks for taking my questions. Three questions. And the first one is just you clearly have generated good success in the U.S. on bad book deals. Can you maybe talk about potential elsewhere, in group outside of the U.S. that there is potential of deals and whether actually there's enough capital out there to kind of support those deals. The second question is just on NetCat budget. Just -- could you give some kind of guidance around how that has changed, or any to what extent, that's forward-looking? Well then based on history. And the third question, I guess, you're one of the first companies to report that has a big UK motor business. Any thoughts on how the UK pricing practices review has impacted the market yet. Thanks.

A - Giulio Terzariol {BIO 17125489 <GO>}

Yeah, maybe just tell you the last one. So on the UK, I think this situation is very fluid. Let's put it this way, what we understand from our -- so I don't have a definitive answer, let's put it this way. But what I can tell you is the following, that we started January with the pricing which was new business pricing, which was more conservative compared to what the market was put-- put in the end, we saw that, the competition was more aggressive, so to a certain degree we had to make some adjustment to price. Now we also believe that there could be some movement in the other direction from the competition, but fundamentally, it's a little bit too early to say, the only point that I can make is that we started with a more conservative position than what our competitors in general has and now we need to see how this situation is going to evolve and stabilize.

So I think we can speak about this issue, when we add Q1 call I'm sure at that point I can give you some good indication of what has happened because right now the situation is still developing. On the NetCat, I just tell you the way we are thinking about NetCat and maybe let me, that when we look at NetCat, internally, we look at NetCat and weather-related losses. So overall, in the past for the exam on NetCat, the weather related losses we had a budget of about 3% of premium, and we moved this budget up already in the last two years to about 3.2 percentage point to premium. And now we for 2022, the way I look at that is 3.5 percentage point.

So I would say that compared to the situation of three, four years ago, we are 50 basis points higher in the catalog once including weather-related, there we were at that time. And now to give you also an idea, anyway, we have an aggregate in place. So I will say, that if we see more NetCats that are including these 3.5 budget, I will say when we start getting to 4.5 percentage point of load, that is the point where the aggregate should come into place. So think about that, to combine budget of NetCat and weather-related are 3.5% which is 50 basis points higher compared to what we had a couple of years ago. And then I will say at 4.5%, we should be kept in terms of NetCats load because the aggregate will come into place. That was clear?

Q - Kamran Hossain {BIO 17666412 <GO>}

Yes thanks.

A - Giulio Terzariol {BIO 17125489 <GO>}

Okay, perfect and then on the bad books, I think there is appetite there. Yes you saw that's -- there are a lot of transaction happening also in the U.S., Sixth Street announced a translation just after having done, the Lucy translation and they still have appetite to do things, I just -- we have, there is appetite there. So, it's not a problem to find buyers. And from our standpoint, clearly, we are continuously looking at what our options are. And if we -- if we believe that the way -- the above transactions that I wait to do -- to go we are going to do so.

A - Oliver Bate {BIO 19184930 <GO>}

I would like to make a point there. Giulio actually made this morning. I'm missing a little bit energy today. So, I wanted to make the point. It's not just about selling books, this is how the bankers see it. It's actually the last resort, if you don't know what to do, you need to sell a business, there are many other levers.

Giulio mentioned the two examples today that I would like to repeat. First in Italy, on the pension business, we have been renegotiating some pretty capital-intensive contracts in a way that has provided massive capital relief. And we're continuing to do so. Actually, the industry is picking this up now, so there may be more larger contracts also for us that are changing. The other one is France where we are working very hard not just on the new products that have three times the margins that we had just two years ago, but also transforming the in-force, because they come with higher investment upside for our consumers. And our sales force is actually super excited to provide an alternative to sort of the lower margin products that came with the older text benefits. And again, the regulators, they are very happy because we are providing more upside at much less capital consumption.

So there is many levers there were pulling at the same side and people only look at sort of, are you selling reserves. That is just one part of it. The second thing is, many of these things take quite a while to prepare in order to get them really as a win-win. So for example, on Switzerland, we've worked for two years and before we did the first-ever direct insurance in to Bermuda and also Lucy didn't come -- our project in the didn't come overnight. We actually observed the market and we saw a massively growing interest in to transaction particularly in the quality of books that we have relative to other people that really have problems. And therefore you've seen this enormously beneficial economics for our partners and for us because the quality is so strong.

So we really have to get the timing right in order to extract the maximum value for our shareholders. This is different for other people that have real problems and really need to get out of businesses, which we have been addressing quite a few years ago. So, this is now really about optimizing risk and return and it is not about solving a problem per se, because we don't think we have a problem, really left other than the smaller items. And that is super important. We are literally thinking about the transformation. Now, the next step is not just thinking about in-force, but also leveraging because there I love your question. How can we do this for new business. So what we're working on is to work with private capital, to say, there are highly competitive segments of the market in the U.S. and elsewhere, can we not set up structures -- where we do the product design, where we do the distribution, we capture a very nice share of the value creation. And then put the business on to balance sheet that have much better cost of capital than we do have.

So that's the next level of transformation that we're working on and wait, it's coming some of that is coming '22. So we're super excited to drive a value creation massively. So now I made the joke and says for as Giulio said with the P&C business, with a new business strain of 30, so the percent of net earned premium, if we could do the same thing in P&C to really not have an SCR strain, any more from new business, then we found really a cool trick, kidding aside. So in life we've made huge progress after working out for working years. And now, it's really about driving growth at ever-rising ROEs. And I would like to point out, the key thing is not the ROEs, it is to reduce the tail exposure.

So making sure that we systematically reduce the exposure to tail shocks. And you're going to see that in the reducing volatility of our Solvency II ratio and strongly growing Solvency 2 ratios, because the new business now is going to be accretive to Solvency II, and which is a total change, and it's coming this year. Right, I think, the investors community has not really understood yet and picked it up.

Q - Kamran Hossain {BIO 17666412 <GO>}

That's it. Thanks for the very comprehensive answer.

Operator

All right. We have one caller in the queue. Then I guess we have to come to an end. We will take our last question from Thomas Fossard from HSBC. Thomas, the line is yours.

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes. Good afternoon, everyone. Just one last question for me, related to your Credit Insurance business so you are back to very strong operating profitability in 2021. Giulio, could you tell us how you're dealing with the profit sharing or repayment of the public scheme? And how much you've been able to front-load, if you wish the profit sharing that you need -- that you hold to this state, to the different state? And -- or how much we should expect still to come in 2022?

A - Giulio Terzariol {BIO 17125489 <GO>}

Thank you. That's -- we start the agreement, basically in June 2021. So in 2022, there is no profit sharing. Now, what is happening to the standards, the reserve are set conservatively, when we have a runoff, we are sharing the run-off, the positive run-off with the states, but the majority of that happened already in 2021. So, I would say as of 2022, since we are out of this profit sharing and since the excess prudence in the reserve has been also released, there is not much left from that point of view.

Q - Thomas Fossard {BIO 1941215 <GO>}

Okay. So, 2022 in the --

A - Giulio Terzariol {BIO 17125489 <GO>}

Business --business as usual. Yes. Absolutely.

Q - Thomas Fossard {BIO 1941215 <GO>}

Okay. Thank you.

A - Giulio Terzariol {BIO 17125489 <GO>}

Welcome.

Operator

All right. Thanks very much for everybody who joined the called. In case, there are any questions left, please call myself or my team. We will be very happy to help. For now, we say goodbye. We wish you a very pleasant remaining day and a nice weekend. Goodbye.

A - Giulio Terzariol {BIO 17125489 <GO>}

Thank you.

A - Oliver Bate {BIO 19184930 <GO>}

Thank you so much.