Q1 2019 Earnings Call

Company Participants

- Giulio Terzariol, Chief Financial Officer
- Oliver Schmidt, Head of Investor Relations
- Unidentified Speaker

Other Participants

- Analyst
- Andrew Ritchie, Analyst
- Drew Gallant, Analyst
- James Shuck, Head of European Insurance
- Michael Butler, Analyst
- Michael Heap, Analyst
- Michael Huttner, Team Lead Analyst
- Nick Holmes, Analyst
- Peter Eliot, Analyst
- Unidentified Participant
- Vinit Malhotra, Analyst

Presentation

Operator

Ladies and gentlemen, welcome to the Allianz Conference Call on the Financial Results of the First Quarter 2019. For your information, this conference call is being streamed live on allianz.com and YouTube. A recording will be made available shortly after the call.

At this time, I will turn the call over to your host today, Mr. Oliver Schmidt, Head of Investor Relations. Please go ahead, sir.

Oliver Schmidt {BIO 2473131 <GO>}

Thank you, Brian. Yeah, good afternoon from my side as well. And welcome to our conference call. I keep it brief and over directly to Giulio.

Giulio Terzariol {BIO 17125489 <GO>}

Hi good afternoon and good morning to everybody and thank you for joining the call. I'm pleased to present you the good results for the first quarter and we can go straight to

Page 3 of the presentation.

As you can see we had a good growth, internal growth with 7.5% and this was driven by the Life segment and also by Property-Casualty, and Asset Management. We had a reduction of the revenue. I'm going to come back later on this development. But in total, at least the growth rates of the revenue for further grow very positive, the operating profit is also up. This is mostly driven by the underwriting improvement in P&C as a consequence of lower natural catastrophe, and then when you look at the net income is also up compared to the level of the prior year period.

As you know, our outlook for 2019 is an operating profit of EUR11.5 billion. So with an operating profit of EUR3 billion in the first quarter, we are well on track to achieve the EUR11.5 billion by the end of the year.

Now if you go to Page 5, we have here the development of the IFRS equity and also the Solvency II. On the IFRS equity clearly we see nice increase of EUR6 billion, which is mostly driven by the change in annualised gains and losses on investment, because of the market environment in Q1. More interesting, I think the development of the Solvency II ratio, which went down by 11 percentage points.

If you all remember, we didn't have the deduction for the buybacks in the numbers of 2018, and also we had anticipated 3% to 5% of model changes, so just adjusting for these two effects, the solvency ratio at the end of 2018 would have been closer to 20. So in reality to the moment between 2019 the first quarter, and 2018 is mostly explained by these two developments. I'm going to come back one second anyway on these numbers, are anyways on these slides. I'd like to draw your attention to the sensitivity, especially to the equity market sensitivity and the interest rate sensitivity. For the equity market sensitivity, we don't see any significant change compared to what we've had before.

In the case of the interest rate sensitivity you can see that the interest rates sensitivity down is more pronounced now, compared to what we disclosed at the end of 2018 and then the major divider for that is the convexity on the current solvency requirements. And if we go now to Page 7, I can come back again on the development of the Solvency II ratio as I said before, because of the model changes we lost about 4 percentage points of solvency there you can see the operating Solvency II generation, which is 6% pretax and pre-dividends.

If you deduct the dividend and the taxes, you come up to a number of 2%, which is somehow lower compared to the 3% we usually would have expected, but the main driver for this is the higher growth that we experiencing. So in reality it's very much in line with our expectation based on the growth that we are seeing right now, especially in property casualty.

The market impact was minus 3% if you adjust for taxes that will be minus 4%, and this is definitely a little bit higher compared to the sensitivity that we had estimated at the end of 2018. So, that will be the only thing where there was a little bit of a deviation from our expectations, and then on the Capital Management, the minus 7% is mostly explained by the dividend and by the buyback. So in total, we have a Solvency ratio of 218, which is a very comfortable level.

So from a capital flexibility point of view, we have clearly the same capital flexibility that we had before and again, the majority today the delta compared to the end of the year was largely anticipated due to the buybacks and the model changes. And now we can turn the Page 9, where we show the numbers for Property-Casualty, and we see on a total Property-Casualty level that we have an internal growth of 4.6%. This 4.6% internal growth -- 40% is driven by price and 60% is driven by volume. Second point is, we can see that practically growth across the board, I will say, except for a few entities all companies are growing. And also when we look at the pricing environment moving forward, in general we dealing with pricing environments which is either stable or positive, so from that point of view, the pricing environment should support our performance as we go through the rest of 2019.

At Page 11, we show the development of the operating profit. And as you can see the operating profit increased by 14%, and this is driven by the development of the underwriting results and to be more specific by the improvement in the combined ratio, which is mostly driven by the NatCats-- loans, which is lower compared to what we had last year. Also we have an improvement of the expense ratio, as you see, the runoff is stable. What went against us in Q1 was the development of the large losses. When we analyze the numbers we removed the impact of natural catastrophe or large losses and weather-related losses. The real attritional loss ratios are pretty much stable compared to the level that we had one year ago.

So all-in-all, anyway the combined ratio, which is positive compared to what we had last year, not just because of the natural catastrophe. But we continue to work also on our expense ratio. Moving to Page 13, we can see the breakdown of the operating performance by entities. We had very good performance in Germany and improvement is driven not only by lower natural catastrophe, but also a better development of the expense ratio and also lower large losses. In France, we see also numbers moving in the right direction. In the case of Italy where you see an improvement compared to the prior year period.

This improvement is all explained by the removal Genialloyd, which is now part of Allianz Direct. Adjusting for that combined ratio in Italy will be for be flat and at a very low level. Then, in the case of Spain, you can see a swing and that's due to positive annual growth in 2018, which is now turning negative in the first quarter. And then when you go down the list in Turkey, you can see a higher combined ratio, but this is all driven by the inflation environment, which is offset in the investment income and then the AGCS looks worse compared to last year but we need to keep in mind that last year, at year-end the combined ratio AGCS was over 100%.

So from that point of view this is the level of performance that we are currently experiencing at AGCS. And then, very good results both at Allianz Partners and especially at Euler Hermes. So all in all, I will say that our numbers sound positive. Some room for improvement, but in general our portfolio is doing pretty, pretty fine. At Page 15, just a short comment on the investment income-- is resilient. In reality it is even going up a little bit in the first quarter '19 versus the level of last year.

So the resilience, and today we are welcoming because we always anticipating some reduction of the investment results, but for the time being, we see that is more resilience in this position, than usually we tend to anticipate.

And with that I will come to Page 17, to speak about our Life segment. First of all on the production, you can see that is a nice increase in the present value of Business Premium, which is about 17% -- 18%. It is mostly driven by Germany. And also we had a very good growth rate in the USA. Also in the Benelux, we had a nice development.

And just in Italy, in Asia Pacific, we had some reduction of production. But in general, we're very, very pleased with the growth that we're experiencing in the life business. And what is also important is the margins going up, so we had also an increase in margin by 20 basis points. And as you can see the margins going up also, or at least stable in all segments within the Life business.

If we go now to Page 19, you see the development of the operating profit, which is up to 2.5%. As you may remember, our outlook for 2019 is EUR4.2 billion so we have an operating profit of EUR1.1 billion. We are good on track to get to the EUR4.2 billion by the end of the year, what you can see in the waterfall is a reduction of the investment margin which to a certain degree is also expected, and this is more than offset by loadings and fees. And also we have a positive impact of change in Deck. Here there clearly many drivers, but one driver is that in the benign environment of Q1, the VA business in the US is performing pretty, pretty nicely. And this is, this is leading to positive Deck to up because of the capital market performance.

So in all EUR1.1 billion. So good operating profit for the quarter. If you move to Page 21, on the value of new business, you can see an increase in value of new business of 25% which is clearly the consequence of the higher production and also improved new business margin. When you look at the single entities, you can see widespread improvement on the value of new business. And when we look at the operating profit we will be focusing only on the three largest, if you want, the three top companies on the table. In the case of Germany Life you see there is more reduction, this is more a normalization, because the operating profit level in the first quarter of the last year was higher than what we would normally expect.

In the case of the USA it is the opposite, you're seeing an increase because the operating profit was too low in the first quarter 2018. Then in the case of Asia Pacific you can see an improvement, which is was driven by the growth that we have in Asia, but then also driven by the fact that we don't add the drag of the legacy book in Taiwan anymore. And with that at Page 23, we have our regular, if you want, deep dive on the investment margin. When you look at investment margin, first of all, you can see that the current yield is going down just slightly and more or less in line with the minimum guarantees, so from a spread point of view, there is a lot of stability, what has gone up in the first quarter 2019 versus what we had last year is the profit sharing. So, to this point this is always a metric that to a certain degree, we can't control, because we are not necessarily crediting at the minimum policy. We are not at a maximum policy or the participation, especially in the German business. Also there is this a bit in the US business.

When we look at the '19 basis points of investment margin. This is slightly below, if you annualize the number, our guidance of 80 to 85 basis points for the year. Here we need to see two things, first of all how this is going to develop in the following quarters, but I will also like to draw your attention on that the aggregate policy reserves have increased substantially. So from a from a volume point of view, there is offset that we have a higher exit basis if you want, which should not shouldn't be neglected, because at the end of the day what counts is the multiplication between the asset base and the investment margin.

And with that, we can move to Asset Management at Page 25. As you can see the assets under management for third-party have increased by about 8%, and clearly here both the improvement due to the market, including the F/X effect and the consolidation of Gurtin have played a role in bringing the number up, but also you can see, we had positive inflows of about EUR18 billion, slightly negative with AGI but largely positive over EUR20 billion PIMCO. So that's a nice development, but you remember that the last quarter of 2018 was kind of challenging for PIMCO, but we were always confident about the flows moving forward. So we see, we saw a nice flows at PIMCO in the first quarter 2019. When we move to Page 27, we see that the revenue is stable, but if you adjust for the F/X effects we are down about 5%, This is driven by PIMCO, and here we have also a one-off. I'm sure you're going to ask me a few questions about this one-off in the Q&A. So I'll leave it to questions I'm going to get. And also, we should not forget that the asset basis in 2019 in the first quarter was slightly below the level of last year, because of what happened during the fourth quarter and then there are some other technical effects explain the the drop in revenue on the-- adjusted for F/X effect at PIMCO.

The investment margin, or the fee margin is also a little bit lower. Here there is also the impacts of the technical effects and one-off, I was referring to. In reality, if you adjust the fee margin for these effects it's pretty stable compared to the level of last year. With that we can go to Page 29. So the operating profit for the asset management segment is about 10% below the prior level, if you adjust for F/X effects.

This development is all driven by PIMCO and here, there are three effects, at the end of the day. One is the one-off, which is by the way, a good thing because is going to produce revenue and profit moving forward. Then we have also the Fed -- the revenue basis was lower because of the lower asset bases. And then the cost-income ratio in the first quarter 2018 was with 56.6. if you want, a little bit too low compared to what will be a normal expectation for PIMCO.

So in total anyway for the segment we have about EUR600 million operating profit. Our guidance for the year is EUR2.5 billion of operating profit, and we feel pretty confident that we're going to achieve that EUR2.5 billion, considering that the asset base as we're going into Q2, is higher compared to the level that we had in Q1. Considering that the famous one-off I'm referring to is going also to create revenues starting in Q2, and also considering that performance fees, which are a driver performance for our Asset Management operations are coming usually later in the course of the year. So we are pretty confident we're going to achieve our EUR2.5 billion of operating profit for the segment.

Page 31 is just the development of the corporate segments which is getting slightly better compared to the prior period, and I will say we can go straight to Page 33, where we show as usual the development of the non-operating items. I will say there is just two comments, one is the realized gains and losses are lower compared to the prior year period, and impairments are stable. So there is no specific reason for the lower realized gains and losses compared to the prior year period. And then on the tax rates, you can see it is at 25% which is somehow at the low end of our range of 25% to 27%.

All in all, with the net income to almost EUR2 billion for the quarter I would say we have a very strong bottom line results, which is mostly driven by the performance -- the operating performance that we discussed before.

So the last slide is just a summary for you. So good revenue growth, good operating profit growth, so we can see a lot of strengths in many KPIs and in a lot parts of our business. So we are looking forward to a good 2019. And with that, I would like to open up to your questions.

Questions And Answers

Operator

Thank you. (Operator Instructions) We'll now take our first question from Peter Eliot from Kepler Cheuvreux. Please go ahead, your line is open.

Q - Peter Eliot {BIO 7556214 <GO>}

Thank you very much. I have three questions please. The first one Giulio, was on the solvency development. I mean, you mentioned the two reasons that I guess the ratio missed lots of our estimates, which was the convexity of the sensitivities and also the operating result. I mean on convexities, the interest rate sensitivity is now back up to your targets of 11 percentage points. I'm just wondering to what extent the does the sensitivity increase for even lower rates and on the operating, I'm just wondering if we could have a little bit more color. I mean, you mentioned the growth in non-Life being attributable, but actually the growth is less than it was across 2018.

The guidance seems to have come down a little bit, but not massively considering you're basically guiding to 8 percentage points for the rest of the year. So I'm just wondering to what extent is what we're seeing in Q1 sort of one-off effects and to what extent is it ongoing? That was the question.

This question is much shorter. Second question was, I was intrigued by the impact of Allianz Technology. I, just wondering if you could elaborate on that, whether it has helped the corporate segment. And the third question, Asset Management flows -- Just wondering if you could give us an update on Q2-to-date. Thank you very much.

A - Giulio Terzariol {BIO 17125489 <GO>}

Okay. Thank you, Peter for your questions. Maybe we can start from the Asset Management flows and then we go way up to the first question. Asset Management flows, we are seeing good flows also in the second quarter. So on a net basis, we should be about, about EUR10 billion net flows, which are mostly driven by PIMCO.

So we see nice flows in the ratio of PIMCO. In the case of AGI we are still not in the positive area, but in total for the growth we are speaking of positive net flows of about EUR10 billion for the first six weeks of 2019 for the second quarter. For the Allianz Technology, the question about the Allianz Technology. Yes, the numbers are getting better. So this is the driver for the improvement in the corporate segments. Allianz Technology is the company that has been carrying out a lot of our projects and transformation projects, and clearly when you do these transformational projects, you cannot always capitalize all kind of expenses, so now is that was a drag in the past. And now we see that this drag is coming down, because now Allianz Technology is more getting the revenue out of the transformation project instead of being heavily in the investment phase.

So that just is a natural development, if you want into the business model of Allianz Technology. Then you have the question on the Solvency II or two questions on the Solvency II. One was on the capital generation -- organic capital generation. And on that one, I will say first of all that is also one one-off that is included in the capital generation, is the development of the risk margin, which is in the P&C side, which is going up and that's driven by the change in interest rates, we are not showing these impacts needing a sensitivity and we are not showing markets impact, we're showing these in the organic capital generation. So this is nearly something which is costing and little bit of the capital generation for the quarter on the operating side, but then I would also say that we have refined our also calculation for the business evolution. So right now, what we do consistently, we apply a 30% charge to our premium.

So it is if you will, a growth in premium. So in the future going to be able to track, very easily cut clear consumption on the P&C side. This is consistent with the, how we addressed the issue in the Capital Market Day. So there is, from that point of view also some refinement we are doing to the methodology.

If the growth rate is going to go down from the almost 5% level that we see now to the 3% level, you're going to see capital generation back to the 3% level. This said, honestly speaking, we have a 3% capital generation per quarter, or 2% capital generation per quarter-- it doesn't make a big difference. And if I have to choose, as long as a growth that we do is profitable, I'd rather go for the profits than having 8% or 10% capital generation, or 11% on the Solvency II per annum, doesn't make honestly speaking a big difference. So we are happy to the growth, and we have a little bit less capital generation those additional that's that's totally fine. And then you had a question about the convexity. Yes, I would say if rates go down, further, you will see the convexity picking up. The convexity is constantly picking up and usually go down as the rates are going down. The only point to note is the boons was at minus 9 basis points at the end of Q1. So there is most likely a limit to how much the interest rates can go down. So I will not exclude it can go down a little bit further. But I believe we are approaching the limit to how much down they can that can go. But technically speaking, yes the convexity is picking up as we go down the, that is the interest rates are going down, you can see that those in our sensitivity our sensitivity or the way down was minus 4 at the end of the year, and now we're basis on minus 8.

Q - Peter Eliot {BIO 7556214 <GO>}

That's great, Giulio, thank you very much. I completely agree on the capital generation. Can I just quickly clarify on the Allianz Technology, it sounds like that result is fully sustainable and might actually even improve from here, going forward. Is that the right interpretation? From what you've said?

A - Giulio Terzariol {BIO 17125489 <GO>}

Yes, the interpretation of the reality, yeah. We want to improve the performance of the Allianz Technology over the next two, three years. So absolutely the direction should be a positive direction from here.

Q - Peter Eliot {BIO 7556214 <GO>}

Right. Thank you very much.

A - Giulio Terzariol {BIO 17125489 <GO>}

Welcome.

Operator

We will now take our next question from Michael Huttner from JPMorgan. Please go ahead, your line is open.

Q - Michael Huttner {BIO 1556863 <GO>}

Thank you so much. This is a bit boring for you probably. On the solvency, I just wanted to clarify because I missed I missed a bit, the guidance at the moment, for the year is 8% and if we were to have lower growth, we would go to 11. That's the question. And the other one is I am a little surprised at this slightly lower guidance given the life business is producing so much new business value that I think is included. I think it's EUR100 million higher this year than last. So I am wondering if I'm missing a moving part, a negative moving part to explain this lower guidance?

And then just a little bit of color on the German Motor my favorite topic. Can you say speak a bit about maybe the pricing and competition environment. The reason I ask, is I think for you, the pricing was positive. But all your peers well, some of your peers -- AXA and Amex, reported negative and I'm a bit surprised. Thank you.

A - Giulio Terzariol {BIO 17125489 <GO>}

Yeah, so on the Solvency II ratio. I will say that's assuming that the current kind of growth rates and also adjusting for the risk margin, I would expect that by the end of the year, we might be at the 10% level. So that will be still my by guidance for 2019, then depending on the acceleration or deceleration of the growth rate, we might end up a little bit better or worse than that.

So fundamentally the guidances still for 10% but eventually wouldn't be a drama if we end up with a capital generation of 8% just because we are growing very strongly. But the guidance is about 10% for for 2019. Then you had a question about the German Motor. So I can just tell you that definitely, we saw some more competition in in the German Motor business. Our combined ratio, we figure it anyway, rates improvement. In the reality we're pushing a few less on growth, because clearly we are always adjusting our appetite depending what the market conditions are.

So if you're looking in detail our growth in Motor this year is less compared to the growth in Motor we had last year because we are not focused on growth for the sake of growth, at the end of the a day, we want to have a profitable growth and the combined ratio I can tell you, is pretty, pretty solid.

Q - Michael Huttner {BIO 1556863 <GO>}

Thank you very much.

A - Giulio Terzariol {BIO 17125489 <GO>}

Welcome.

Operator

We will now take the next question from Vinit Malhotra with Mediobanka, Jeff. Please go ahead, your line is open.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes, good afternoon. Thank you very much. So, just coming back on the growth topic. If I can ask one on Life, one on P&C, and then also on a third question on AGI outlook please. First, on the growth in German Life I mean the kind of numbers you're producing in the savings and annuities and not in capital efficiency are quite remarkable. Seems to be coming from corporate business, but not affecting the new business margin as well.

So is this in some kind of a new initiative, or is it-- and also, could you comment on-- well it is large corporate, it's not affecting NBN. Then in B and C there is in Italy a remarkable 8.4% growth number which we found quite exciting. Could you just help us understand because it's obviously not coming from the direct side and traditional Motor, looks like, can you comment on that? And then on AGI outflows. I mean, you said there was a small outflow, but it was one of the biggest outflows in many, many quarters now. How is it? Is it performance induced? And because actually it was very strong the increase in AGI flows was strong-- and just help us understand how that is? Thank you.

A - Giulio Terzariol {BIO 17125489 <GO>}

Yeah, so I can start from the life growth in Germany is not a new strategy and we have situations where in the quarter, we might have more large contracts. So this has happened also in the past in the past I believe. What is kind of eye-catching now is that you had the combination of natural growth also in our Capital-Life products. And on top of that, we are getting also these large contracts, but there is no new strategy. I also believe that in the course of the year, you're going to see some sort of normalization. With respect to the performance of this business-- the business margin is still healthy. We are still making our target pricing, which is in this business.

So we are not sacrificing performance, and one thing that you need to consider is, every time we are the growing also the where we are. There is also a cost advantage. Right. So the get also better cost margins. So the end of the day, always think that's the profitability of our Life business is not only driven by the investment margin, but there is also a technical component. The cost component, that's the reason why it's absolutely profitable growth. What we are getting in Germany. And also think about that. We even adjusting for these gross costs, our growth rate will be north of 20%. So what will be the reason to chase big contracts if we are anyway growing a lot.

So I would not have any concern on the profitability of business for Germany Life. In the case of P&C and Italy, you notice the 8% growth, which is driven by an accounting change on the way we book the premium. Because in the Italy premium paid on a monthly installment basis were not accounted right away, but they were accounted over over the time. So this is creating clearly a growth rate for the quarter, which is exceptionally high. In the internal growth of 4.7, we have adjusted for that effects. So when you want to look at the yield growth in Italy, look at the internal growth, which is adjusted for these accounting effects, and that's also adjusted for the disclusion of Genialloyd. So that's the real number you should look at. It's still very good because the growth rate of 4.7 is is good, and in the case of Italy is driven by Motor and that's also driven by volume, by price. But clearly, when you have a combined ratio at the level that we have, I think price is more than fine. And to come back also to the question, Michael, before in Germany is the opposite.

When you see what is driving the growth in in Germany, is price and not volume. So just to give an idea how we are moving differently country by country, depending on the competitive environment, the level of performance. Then clearly our subsidiaries are going to react, subject to the market conditions. There you had a question, the AGI, noticing that the inflows were kind of weak for the quarter. The driver for the quarterly development of the inflows is-- half of the outflows were driven by Asia where a big distribution partner didn't like the concentration the had because there were selling a lot of AGI products, and this has been clearly a headwind for us. So half of the outflows driven by this distribution partner, trying to reduce the dependency on AGI, and the rest is coming from a slowdown in sales in retail in Europe. So these are the two effects that explaining the outflows. I will say, the Asian one is a little bit if you want, of a one-off. And the retail headwinds in the Euro, then we need to see how this is going to play out in the next months.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay, thank you.

A - Giulio Terzariol {BIO 17125489 <GO>}

Welcome.

Operator

We will now take our next question from Andrew Ritchie from Autonomous. Please go ahead, your line is open.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Hi there, hi Giulio. Two quick questions. Spain used to be the golden child running in the low '90s or high '80s combined. What happened in Q1. I'm particularly interested in reference to reserve strengthening in the commentary just maybe just give us a bit more color on that please.

Second question, given the interest rate environment has kind of deteriorated a fair amount year to date in terms of benchmark yield curves falling. We've always been a accustomed in the past to Allianz being fairly proactive in terms of management actions that you take, particularly in respect to ALM positioning, Solvency II model. Is there anything because of the sort of tougher, back to this lower-for-longer-forever interest rate environment, is there anything that you've done proactively as a group, particularly in Q1 to reposition for that? Thanks.

A - Giulio Terzariol {BIO 17125489 <GO>}

Yes. So maybe let's start from the Solvency II question. So we are always doing-- yeah we do some-- always some capital management. There was nothing now very pronounced in Q1 that we did on this side, also considering that when you have a solvency ratio which is at the 220% level there is no point for us now to overreact to movement. But clearly, so if you look at our position assuming we will get uncomfortable with the levels of Solvency II, which we are not, there are things that we can do, we can definitely change our duration profile.

So from that point of view, always keep in mind every time we speak about our sensitivities we are now considering for, capital management action -- for management action, but clearly this is a tool that we have at our disposal, and this can be also very effective to manage the Solvency II ratio. Also changing in the derivative strategy for equity hedge and this can be very effective and clearly, you need to consider that, what is the impact on other KPIs.

But we started just point of view there we have a very healthy level of solvency. We expect that we're going to generate solvency capital moving forward because of the organic development. So from these points of view, clearly we're going to evaluate what we can do on the duration side, but we are not really agonising here thinking that we have a Solvency II problem at all. So I say we are very comfortable with the level of Solvency II. If the markets have changed significantly and we have a different level of Solvency II then we must think about differentiation, but at this point in time, we feel good about where we are and that's also very important.

All the flexibility for doing what we need to do from a capital management point of view, the sales are growing our business, we're doing buybacks looking M&A at opportunity, has not changed a bit because of the number that we had, we were anyway expecting to have a Solvency ratio closer to 220 as we were adjusting for the buybacks and also for the model changes.

The other question on Spain, and I will say what happened is Spain is usually the-- I will say the Accident year performance is more or less the same level as last year and the sense of the loss ratio is deteriorating a little bit. And this is driven by-- a little bit by the Property portfolio, a little bit by the Motor portfolio, but on the other side, the expense ratio is going down because we are taking measures on the efficiency side. Although Spain was always a very efficient company.

So from the Accident year performance is pretty much stable and then we see a swing in run off, which is mostly coming from the Motor business, we are looking. There were claims at the end-- were related claims in property at the end of last year and now we see that somehow we are getting some negative development out of those claims.

So this is something that we're going to watching now. I believe that for this year we still might have a few challenges in Spain, but by 2020, I'm rather confident we are going to be back to a good level of performance because of the actions we are undertaking.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Okay, thank you.

Operator

We will now take a next question from James Shuck from Citi. Please go ahead, your line is open.

Q - James Shuck {BIO 3680082 <GO>}

Hi, good afternoon. Thank you. Three questions from me. Firstly AGCS, it's had another difficult start to the quarter, combined ratio, close to 100. I appreciate that's impacted by large losses, but there's also no real impact from that CATS and in 2017 and 2018 also around 100% level. You're growing volume at about 11%. So can you just shed some insight please into the future direction of travel around that combined ratio. I think it's a very low ROE business as it is, if you just update on what you're doing in terms of capital efficiency on that side, please, that would be helpful.

Secondly, just interested to see the new disclosure for Allianz Direct. So there's 103% combined ratio with an expense ratio of 18% or 17.8%, it sort of seems to imply you're writing sort of a very high loss ratio on the direct business and most of that direct business should actually be quite mature now, particularly given Genialloyd that's been an asset for many years. Just, shed some insight on to that loss ratio for me, please.

And finally, really just a clarification, I think Giulio -- you mentioned that the capital set aside for P&C growth was 30% of premium. I was just looking back to the Investor Day in November, you were pretty clear then that the capital set aside with 35% to 40% of premiums. I just want make sure if you change your modeling in terms of the capital required for the growth. Thank you.

A - Giulio Terzariol {BIO 17125489 <GO>}

Okay. Yeah, thank you for the question. Maybe you can start from the last one. Yes, we had 35. This was the pretax number. And now we put on the ACR, we are putting directly the tax impact into the business evolution, then we give you the number 2 is net of taxes from both sides. So the 35% was pre-tax 30%, it's an after-tax number. One thing which is important for you, because we're going to add these again in the future. So, want to set expectations. The way we running in our business evolution calculation is we look at the portfolio movement. And then we establish a sort of-- based on analysis, a rule of thumb of Premium, are going to add this kind of premium charge.

New Business is going to add a sort of new business charge and the run-off of the in-force is going to add these kind of runoff charge. Then on the -- we use this charge on a custom basis and then time by time we reevaluat the charges. We do the analysis and there we might change depending on what we see the numbers, so you might have situation where we are going to have at some point in time, maybe slightly different factors and these could drive a little bit of the different development compared to what we discussed before. But we are going to be also transparent, if we have significant changes in the factors you're going to see that.

I believe this is a very good way, if you like to run around these numbers is very transparent and very easy to have the communication with you guys. But I just want to explain to you how we are doing this calculation now. This was not the way we were doing the calculation at midpoint last year. So this is a change that we introduced to have better stability and better clarity on these figures.

Then you had a question about Allianz Direct. You will notice that the combined ratio was 103. And you also made a good comment about the business, of Genialloyd should be mature. Indeed Genialloyd has a good combined ratio, but that's the only one. And the other three companies are still pretty small and -- the is more in the combined ratios are very, very high. But that's exactly the reason why we decided to get into a different direction on it because at the end of the day, it doesn't make sense to run a small operation with very high combined ratio, and not just because of the scale, but also because of the kind of underwriting performance. That is one thing anyway that has to be appreciated. Especially when you add companies which have mostly new business. Their combined ratio is going to be higher. The new business comes always higher and the combined ratio.

So I would say in the case of Genialloyd, yes the companies between inverted comma "mature", but still I will say still not as mature as the seasoned business of Allianz Italy in general, and then if you remove Genialloyd, which has anyway good combined ratio.The other entities are really not at a mature stage. That's the reason why you see the combined ratio that you see, but that's also the reason why we're doing well we're doing.

There you other question on AGCS. Your comments about the large losses are high but the natural catastrophe are low is a fair comments. So the reality is over the last three years AGCS has performed a combined ratio of 100% or more. and one quarter might be that the the large losses are high. Then the next of course it is going to be the natural catastrophe. At the end of the day, the bottom line is always the same.

So from that point of view, clearly, we are taking actions from the portfolio. You might have also seen that the rate environment is getting better, I think this was overdue and I would also tell you that. So what we are seeing now is a positive development, but may not be enough because that is also claims inflation, so the end of the day, this should just be the beginning of a journey of a stronger hardening, as opposed to a just a short-term correction.

So that is definitely improvement in the pricing which is needed, and this applies to the whole market, not just to us Because our performance in the totally fine compared to the market. Because the whole market needs repricing. Clearly that is that we can do, also to improve our underwriting and also look at the different books. You have come commented about the growth steadiness. There is no correlation between the loss ratio that we see, the combined ratio that we see and the growth in the sales. Or we are having these kind of numbers, because we are growing in the wrong line of business.

So from that point of view I believe the performance you see right now is just a reflection on what the market environment is. Then you had a comment on the ROE. Yes ROE I will say, clearly when you have a 99% combined ratio, we cannot be that good. In reality, and that can be fascinating. To get to an ROE of 10% in a AGCS you need only a combined ratio of 97, which is kind of interesting, so that you can discuss whether the 10% is a good ROE. The amount of 97 will be the combined ratio where the ROE gets to 10%. And we are looking at its capital efficiency in this, as you might have known, we had been looking how we can create more synergies between Euler Hermes and AGCS, s we discussed that I believe also in some meetings.

So I think we're going to have the possibility over the next two, three years, by changing some structure reinsurance program to get some additional capital efficiency in AGCS sales. So the bottom line is, if we achieve our target to bring the AGCS combined ratio to 90-96, which is still our target for 2021, and we also work on the capital efficiency, then our ROE should be definitely north of 10%.

Q - Andrew Ritchie {BIO 18731996 <GO>}

And sorry, helpful thank you very much,.

Operator

We will now take our next question from (Multiple Speakers) (inaudible) Hannah from Credit Suisse please go head. Your line is open.

Q - Unidentified Participant

Hi (inaudible). Thanks for the -- Just want to go to firstly to the UK. Okay, so you're building potentially a the higher stake in LV for this year for Q4 and potentially more if they'll be put to the year after. I was wondering about your appetite now for the retail market in the UK, particularly in the context of the regulatory review there on pricing and whether you are looking to build up further scale beyond kind of motor insurance in the market.

Second point is, could you talk a little bit about how the European Direct platform will support the profitability in the Direct business. What tangible benefits will that have maybe on loss ratio or expense ratio? And then lastly, just a clarification on Allianz Technology, based on a question that was asked earlier. I just want to make sure you're not suggesting we take the Q1, corporate number and multiply it by four. Thank you.

A - Giulio Terzariol {BIO 17125489 <GO>}

Okay. Maybe I'll start with the last one. No we don't do that because that is not just technology in those numbers. Although I could say the expectation is that's you know over time because our guidance for 2019 for the corporate segment is minus EUR900 million and there might be a conservative guidance and over time I can definitely see the performance of the corporate segment, it definitely being better the median guidance and going into the EUR800 million below. So, but for the time being, I will not do for this year adjusted calculation.

We're going to end up significantly below EUR800 million threshold and for the time being, I will say, you should assume that we might be better than our guidance but don't get too excited for 2019 yet on that. On the European data platform. You know I just, just tell you in the next years the European Direct platform is going to be a drag on our combined ratio. And by the way, this is something that we had known as we gave our gave ourselves the target of being a 93 combined ratio by 2021. And definitely in the short term the European Direct platform is not going to contribute to get to the 93, it's going to be a drag that we need to somehow offset with stronger performance somewhere else. Eventually, clearly the expectation is that Allianz Direct platform is going to contribute to our combined ratio.

And as you can imagine once we get to 93 we would like to at least stay there. So eventually they need to contribute to these kind of figures. If you remember the Capital Market Day, we have indicated and expense ratio of 12%. Even assuming the expense ratio could be little bit higher than it is. A large loss ratio that you can still tolerate and get to combined ratio which are very good, but over the next two or three years honestly speaking Allianz Direct is going to be a drag, and the best way to assess the performance Allianz Direct is going to be to see how much Premium growth we are getting and also at what kind of combined ratio we are going to get that growth. So if you tell me if we can get growth with a combined ratio of about 100%. I will say that will be a very good outcome.

So if we can get healthy growth and keep the combined ratio on that, that would be my opinion, --good question.

Then you had a question about the UK and yes okay, by the end of the year we are going to be at 70% for the LV business, which means also that the point in time, we can start thinking seriously about integration. Your question was whether that we have potential for further acquisitions in and the UK, you were referring clearly to something which is not Motor. So I cannot speak too much into that because you're a smart guy, so you're asking asking me that question, but it's a loaded question.

I can just tell you that we don't need necessarily to acquire additional businesses in the UK, but if there is good opportunity at a good price, I think we can, we can go for that. Your question about how we view the UK because of the regulatory uncertainty, I would just tell you that the UK tends to be a little bit of a more challenging market compared to what we see in Europe. But eventually I believe there is more of a cycle, if you want, in the UK. But eventually in the UK, I believe if you have a good platform you can create value over the cycle, but definitely there is a little bit more volatility in the combined ratios in the UK compared to what we see in Continental Europe, but there, definitely we are interested in getting strong presence there with the LV acquisition, I think we have accomplished a goal and we have some opportunities, we are going also to strengthen our franchise there.

Q - Unidentified Participant

Thank you very much.

A - Giulio Terzariol {BIO 17125489 <GO>}

You are welcome.

Operator

We will now take a next question for the Nick Holmes from Societe Generale. Please go ahead, your line is open.

Q - Nick Holmes {BIO 3387435 <GO>}

Thank you very much. Just a couple of quick questions. Apologies, first on capital generation coming back to that subject, you said the reduction to 2% was due to growth, but my question is how much was due to business mix within that growth? I mean you've gone from 15% in 2018 to annualized 8% in Q1, obviously you're expecting better than that. And would you say for example that, more than half of that difference was due to business mix change and writing more traditional stuff than unit length? That's the first question. Then second is just on US variable annuity sales. These are booming again. Wondered, can you remind us of the guarantees that you're offering on these products. Thank you.

A - Giulio Terzariol {BIO 17125489 <GO>}

So starting from the capital generation, I don't think mixes making any significant difference, also when we look at, let's say, let's see what's happening in Q1. Yes, we had more guaranteed business. But eventually if you run the math we might have had let's say EUR500 million of new business premium, of additional guarantee business and even if you apply, let's say, to be conservative -- very conservative, the effect of 3 percentage point on that, that will be well EUR15 million. So it's really not that material.

So I will say, the growth in P&C is definitely see is one of the drivers. And as I was saying before, 18 months ago, we were not necessarily calculating the business evolution in the exact same way we are doing now. Now we have established is kind of rules of thumb which are giving us a better view also on the capital generation, but growth in P&C is definitely a driver of higher or lower capital generation. Also one comment, also on the guarantee business, even assuming and that's a little bit of conservative assumption, that the capital requirement is 3% of premium, we are making 3% of value on the new business there, margin. So from a solvency point of view, there will be, even if you want, equalization, where there is enough capital generation as much as capital absorption.

You wanted to ask a question?

Q - Nick Holmes {BIO 3387435 <GO>}

Yes. Sorry, no Giulio that's incredibly clear and useful.Just one quick follow-up, which is, you mentioned P&C a lot. Would you say the P&C is more than half of the --

A - Giulio Terzariol {BIO 17125489 <GO>}

Yeah, I can tell you. -- Sure (Multiple Speakers) Yeah, we look at the --

Q - Nick Holmes {BIO 3387435 <GO>}

It really isn't as important as that? Okay.

A - Giulio Terzariol {BIO 17125489 <GO>}

Okay. I'll give you the numbers. Yeah, I can tell you. The EUR300 million business evolution over EUR200 million are coming from P&C and then the rest, which is less than EUR100 is coming Life. Well also, to be very specific is in the first quarter of 2019 we saw little bit less release of technical provision for the in-force, but these kinds of can be chunky. But you know here we speaking really about of EUR20 million - EUR30 million more or less. So at the end of the day, the main message is, of the EUR300 million, two thirds is coming from P&C. And that's really an easy calculation you take the premium on the 12 month rolling that you apply a 30% charge, and this may seem so-so. The P&C business is capital-intensive, more than people might think.

Q - Nick Holmes {BIO 3387435 <GO>}

That's very clear. Thank you. And then the --

A - Giulio Terzariol {BIO 17125489 <GO>}

So it's a difficult question to answer, because there are different, depending on the product you might have products with a roll-up of 7%. So, i.e. right now, I would tell you that I can give you just a high level answer. We not concerned about the level of guarantees and especially the assumption that we had in our VA business. So from that point of view, I would just tell you, first of all, we are now selling VA now since few years. The majority, I will say more than 50% of the block maybe 60% of the block should be now the business sold after 2008 the financial crisis. And from a guarantee point of view there is not an easy answer, like you might have for the fixing this annuity block. But fundamentally, I would tell you there is no concern about the reserve level. I will call it this way.

Q - Nick Holmes {BIO 3387435 <GO>}

And you say there's no concern because you are hedged, is that right, the guarantees are hedged, is that right?

A - Giulio Terzariol {BIO 17125489 <GO>}

Yeah, because we, yeah, but also at the end of the day, the reality, the assumption you need to look at when you look at the VA business is the lapse assumptions because for the end of the day, as long as you're going to get the lapses that you think you're going to get, then you have set your expectation of the guarantee at the right level. Because if people are not lapsing that's where you're going to see that there is more business which has a guarantee compared to what you thought. So we don't see any negative development on the lapse assumptions.

So from that point of view, we are seeing the bookings perform as we expect. And then in terms of the hedging, we are hedging the delta, we are hedging also the gamma. So we also hedging for the gamma and then we are hedging the interest rate, at least for the business we see subject to interest rate sensitivity and IFRS, which is the majority of our business. So the hedging program is functioning, and from a ledger assumption point of view our utilization assumptions for these kind of things, we see they are behaving as we expect.

Also one thing to keep in mind for the business , which we wrote after the financial crisis 2008 we had the possibility to increase fees, which means if we see a negative deviation in the assumption we can increase the fees. Which also means if we see a positive deviation we can decrease the fees. And the last action from the company was indeed to decrease the fees because the assumption was becoming more favorable.

So in this case, to be fair to their policy or they are moving the fees down and if we see one day that he goes into a different direction we can change the fees up but I will say the variable annuity business in the US, our variable annuity business is kind of limited and I would also say that we don't see any kind of negative development on this business at the moment.

Q - Nick Holmes {BIO 3387435 <GO>}

That's great thank you.

A - Giulio Terzariol {BIO 17125489 <GO>}

You're welcome.

Operator

We will take our next question from (inaudible) from UBS please do ahead, your line is open.

Well then, thanks. Thanks. So two quick ones from me, please. So solvency and capital generation. I know the guidance is clear for FY '19. But what are the moving parts that we should be thinking about beyond 2019, please? Will they stay around the 10 point mark, unless growth slows or is there anything else picking up?

Q - Unidentified Participant

Secondly on pricing in P&C, we're still running at good levels at 1.8%. It's pretty robust at that. That's sort of the area. Where is claims inflation in respect to that pricing movement that you flagged higher claims inflation on the US commercial lines, any color to that would be great. Thank you.

A - Giulio Terzariol {BIO 17125489 <GO>}

Yeah, so on the first question about the 10% guidance. Absolutely, I would say this could be a good level guidance also moving forward. And then on the pricing environment, there was a general question, like on the pricing environment in -- yeah -- in general and the claims inflation. On the claims inflation I always look at claims inflation and also it's frequency across the portfolio. And clearly the situation is very different country by country and line of business by line of business, but in general, I would say that we don't see a pressure coming from the loss trends compared to the pricing we are getting. So in general I then the situation can be a little bit different in one line of business versus the other, and the only thing that we see sometimes in some of our companies which is slightly different, we might see a pickup in large losses in commercial business decisions in that we have seen in different companies, but this is in my opinion, nothing to do with the increasing trend in in in severity in general. And on these cases, clearly, we need to look deeper at the underwriting and determine whether there are underwriting issues as opposed to be normal volatility. But fundamentally from a claims inflation point of view, I will say the situation is pretty, pretty stable compared to the pricing we're getting.

Q - Analyst

So it's fair to say that on on average pricing is tracking largely in line with your expectations.

A - Giulio Terzariol {BIO 17125489 <GO>}

Yes, that would be my sense.

Q - Unidentified Participant

Thank you. And there is a quick final question on the credit situation. Are you seeing the higher US jury awards that some of your peers are flagging?

A - Giulio Terzariol {BIO 17125489 <GO>}

Not at the moment but this -- we are not seeing this as an issue at the moment, but I could not disclude that these might become an issue moving forward but we really don't have this kind of development in the US.

Q - Analyst

Thanks so much.

Operator

We will now take our our next question from Michael Heap, Commerzbank. Please do ahead, your line is open.

Q - Michael Heap {BIO 19955103 <GO>}

Thank you very much. Good afternoon to everyone. Two questions on Allianz Leben. The Solvency II ratio which you disclosed in the SFCR reports on the solo entity level improved significantly from 403% to 478% at year-end 2018, despite lower interest rates in Germany. To my understanding this was also driven by the change in the ZZR requirements.

Maybe you do not know. But can you tell us how much the impact of the relaxed ZZR methodology was on the Solvency II ratio of Allianz Leben. My second question, also on German Life Insurance. I read that you increased the policyholder participation in Germany. And I wonder what is the motivation of this step is this is a step, which you were forced to do or which you deliberately did so, is it just in IFRS accounting issue-- just interested to know.

A - Giulio Terzariol {BIO 17125489 <GO>}

Yes, I will stand but it's participation is more an IFRS translation in IFRS and also you know on the quarterly basis even local accounting can be different. But fundamentally we are not increasing the participations of the policy holder. My point is there any way that we know that we are crediting the policy holder, although we give you more in there what the minimum participation might be so fundamentally we are wrong there.

But for the time being we are keeping the same the exact policy and there is no change in the participation not negative or positive on a local basis and then you have the question about this obviously to ratio development, at Allianz Leben, and I can tell you that the majority of the improvement is being driven by the change in ZZR. So I will say this is pretty much accounting for the big jump that you saw in solvency ratio that you saw 2018.

Q - Michael Heap {BIO 19955103 <GO>}

Fantastic, thank you very much.

A - Giulio Terzariol {BIO 17125489 <GO>}

You're welcome.

Operator

We will now take your next question is from Michael Butler from JP Morgan. Please go ahead, your line is open.

Q - Michael Butler {BIO 16381409 <GO>}

A second option (inaudible) sorry it's really quick question. You know the-- and you kind of addressed it in many different ways. The attritional loss ratio in Q1 61%, sorry -63% to 63.9% Q1 '19, out of that the large losses. The ones we know about, about 80 Bps. But what I'm a little bit surprised by, no fundamental improvement in that ratio. So even if I strip out those large losses kind of flat or slightly worse. Can you talk a little bit about that please?

A - Giulio Terzariol {BIO 17125489 <GO>}

Yeah. So the additional loss ratio. I would say first of all, if I look at the traditional loss ratio clearly there is no improvement, I will say right now compared to what we had the end of the year. But I'm looking clearly just your the numbers which make sense. But maybe I'll give you a different perspective because perhaps I can see numbers that you cannot see. But I can give you a little bit of a hint. If you take our combined ratio in first quarter '19 which is 93.7. And then you adjust for the natural catastrophe that would be just rounded up, that would be 95. And then if you put the runoff on top, there will be about 98. So that could be the the combined ratio before-- I know if I adjusted for Natural Catastrophes, and this is exactly the level that we had at the end of 2018, if you do the calculation.

So from that point of view, what you see in the Q1, is a lot of currencies, let's see with the numbers that we had for the full year. So when we also look at the attritional loss ratio there, the one adjusted for Natural Catastrophe, weather related large losses compared to the Q1, 2018, I can tell you the numbers are very much consistent. So if you ask me the book is performing right now the same way I saw it performing in the course of 2018 , which makes sense. Because we are just in the first quarter of the next three year period so clearly we want to go to 93, but is not going to happen in the first quarter of 2019, this should come over time.

Q - Michael Butler {BIO 16381409 <GO>}

Brilliant. That's a helpful. Thank you. Thanks so much.

Operator

We now take our next question from Drew Gallant from HSBC. Please go ahead. Your line is open.

Q - Drew Gallant {BIO 20017472 <GO>}

Hi, thanks for taking the question. I've just got one left in terms of the PIMCO. Could you talk a bit more about this new fund you've launched, this closed fund, how big it is and what the revenue margin is on this.

A - Giulio Terzariol {BIO 17125489 <GO>}

Yeah. So this fund is a closed-end fund, which is specialized in this is a fixed income specializing credits and also in energy sector and the fund is is a size of about EUR800 million. And the fee margin is about 130 basis points. So at the end of the day if you run the math about the payback period is about two to three years. That's how much we need to get our investment back. So if you ask me, it's a great business case. The only drawback on the business case is that because of some arcane accounting, you cannot capitalize the initial expenses, that's the only drawback. And we might see some other these kind of transitions in the future, but the business cases are very, very strong, very, very solid .

So from that point of view, it's a transaction that we like a lot. But they might cause some sort of volatility in our quarterly results.

Q - Drew Gallant {BIO 20017472 <GO>}

Perfect, thanks.

Operator

We'll now take our next question from James Shuck of Citi. Please go ahead, your line is open.

Q - James Shuck {BIO 3680082 <GO>}

Hi yeah, thanks for taking my my follow-up. I just had a couple, please. So Giulio I just wanted to check my understanding what you're saying about the Life increase in the SCR of the business evolution for Life. So thank you for the split between P&C and Life, you mentioned $100 million as the business evolution for life, there's the capital requirement is 3% of the PVNBP -- So that's around EUR500 million.So just filling in the gaps. Should I assume that the capital release from the back book is EUR400 that gets me to a net EUR100 and if that is right, what is the trajectory for that capital release over time please?

And second question just on, just on AGI, I know you have a target for cost income ratio below 70%. The costing income ratio, in Q1, was around 73% and I think all the explanation about the high cost-income ratio ratio in Asset Management was really relating to PIMCO. So just wondering about the trajectory that for AGI please. Thank you.

A - Giulio Terzariol {BIO 17125489 <GO>}

Yeah, so on the new business evolution, the 3% that was quoted, there will be and number for the guarantee business but I also tend to be very conservative. Just to make the point when we have our calculation, we are applying, indeed it to the entire business ---and business premium we are playing a ratio of about slightly north of 1%. So that's what you can apply to the present development in the business premium and just 3% is more me saying okay, let's pursue on that on this guarantee business. The capital consumption is way larger. Let's even go for 3%. How much can you be a reality in the numbers, but you can use more good 1% on the presently available business premium. To be very nitty-gritty and they always tell me not to be very nitty-gritty, and from the presently available business premium to the OEs, which are not included in Solvency II at all. But this is getting really nitty-gritty too, but somehow, you can use about 1% of our presently available business premium and this gives you a sense of the business evolution. Then you had a question regarding the AGIs. Yes, keep in mind that in the first quarter the cost income ratio with AGI tends to be higher. Also because the performance fees are usually coming towards the end of the year. So if you look at the cost income ratio of AGI in the first quarter in the first quarter of '18 was also about 73%, but then by the end of the year I believe we were below 70%.

So you should assume that in the course of the year, we're going to see any way an improvement of the cost-income ratio because of the performance fees also keep in mind that we have been able to reduce the cost to income ratio in this quarter compared to the last quarter, despite the asset basis being lower. So I would say that should take a full-year view, you can see that our ambition to achieve this 67% is definitely achievable.

Q - James Shuck {BIO 3680082 <GO>}

And just quickly on the capital side of things, I guess if it like, if I just one percent of the PVNBP, that's going to be EUR176 million or so you said the business evolution is 100. So I mean very-- and obviously there's fewer ROEs in then as you just mentioned. It doesn't look like then of this material capital release from the back book, I missing something on that?

A - Unidentified Speaker

Yeah, depends on how much reserves are running off. For example in in the first quarter the runoff reserve was about EUR4 billion and the full quarter 2018 was about EUR8 billion. So 7, so depending on-- now the reserves are not officially yearly on a linear basis. But really, look, we look at this number inside out, as you see and I will really say that we can over analyze this number at the end of the day, we are it's about whether we're going to add 3 or 2.5 of capital generation. I believe you if you have a good capital generation we have a good solvency ratio. Yes, we can definitely analyze this number further but yeah, I'm not so sure whether this is really helpful.

Q - James Shuck {BIO 3680082 <GO>}

Yeah. Okay, that's great, thank you very much.

Operator

We will now take our next question from (inaudible) from (inaudible) . Please go ahead. Your line is open.

Q - Unidentified Participant

Hi I had a question on the Solvency II. Sorry if it's a little early on and if it's on Q1 results, but the, just if you could just share with us if you, if you have it, the impact you would face in case the last liquid point was moved by 10 years, which is one of the options that is being looked at and is there any other topic in the Solvency II review that in your view could be important dynamic relative to just anything that you watch particularly closely? Thank you.

A - Giulio Terzariol {BIO 17125489 <GO>}

Yes, so on the, Solvency II, I view clearly the move in the last few key points is a key topic and that will be, by the way negative for us. Which I will say that could impair the solvency ratio by about 10 percentage points. On the other side, there are positives that might come into play which is the treatment of the volatility adjuster. That's always something that we are pushing very strong because we believe that right now Solvency II is a good framework but one of the weaknesses is indeed in the treatment of the credit spreads.

And then also, there is also a conversation, which is maybe less crucial important, which is about the risk margin and what is the cost of capital that you apply to the risk margin. And so this could be too positive on the other side. And the on last key points, clearly might be there will be a negative and then clearly the point is also not to only if you move the last key points then lastly if you play in, but also what the convergence might be.

When we put together and by the way on the last key points the negative impair might be slightly higher than 10 percentage points, when we put the positive and negative together there might be a wash in our case, but we don't know, eventually, what is going to happen.

Q - Unidentified Participant

Thank you very clear.

We'll now take a next question from Michael Huttner with JPMorgan. Please go ahead, your line is open.

Q - Michael Huttner {BIO 1556863 <GO>}

Thank you very much. My last question I promise, and thank you. And they've simply simple questions just numbers and on your non-Life premiums, your P&C portfolio, how much of the business these premiums would you classify as property?

A - Giulio Terzariol {BIO 17125489 <GO>}

So how much will it's probability? Which I will say the probably about 20% of the business, but we numbers have the numbers, give me one sec.

Q - Michael Huttner {BIO 1556863 <GO>}

Okay.

A - Giulio Terzariol {BIO 17125489 <GO>}

Yeah, okay. Total we say it should be 27% would be classified as property.

Q - Michael Huttner {BIO 1556863 <GO>}

Lovely, super, Thank you so much.

A - Giulio Terzariol {BIO 17125489 <GO>}

You are welcome.

Operator

There appears to be no further questions, at this time I would like to turn the conference back to you, Mr. Schmidt for any additional or closing remarks.

A - Oliver Schmidt {BIO 2473131 <GO>}

Yeah. Thank you. I do believe we had to enough questions for the day. So thanks to everybody for the participation in our call. Thanks for the questions and we say goodbye for now and wish you a pleasant remaining day. Good-bye.

A - Giulio Terzariol {BIO 17125489 <GO>}

Bye and good day.

Operator

This concludes today's call. Thank you for your participation. You may now disconnect.
