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Presentation

Oliver Schmidt
Head of Investor Relations

Good afternoon, everybody, and welcome to the Allianz conference call on the financial results of fiscal 2023. As you know, this is my last call in the current role. Therefore, for the very last time, let me read the usual and compulsory housekeeping remarks to you.

First, let me remind you that this conference call is being streamed live on allianz.com and YouTube, and the recording will be made available shortly after the call.

[Operator Instructions] That's all from my side for now. And with that, I turn the call over to our CEO, Oliver Bate.

Oliver Bate
Chairman of the Management Board & CEO

Yes. Good morning, good day, good afternoon to everybody. Before I get to the content, let me use the opportunity since Olli already mentioned it, that this is his last time here. He was already the Head of IR when I was CFO, which feels like a very long time ago. So a big, big thank you to Oliver. He doesn't want to have a party but he will have one. So this is how it happens in Allianz. Anyway, thank you very much, Oliver. An amazing job over many, many years for Allianz.

Oliver Schmidt
Head of Investor Relations

Thank you, Oliver.

Oliver Bate
Chairman of the Management Board & CEO

Now, let me go into the presentation right away because you have tons of questions. I saw tons of write-ups. We're always surprised how markets really function but we'll explain to you what at least we can explain as much as possible today. So let me just go into -- a little bit into the strategy but use the opportunities based on the questions and write-ups I've seen to address some of the.

First one, it's still going on since COVID. People tend to forget what the -- what a crazy world we're living in across our segments, whether that's P&C, Life and Asset Management, all challenged by the same thing. That's on Page A2. I will not spend a lot of time on it. Key thing is direct impact comes from inflation that is still high, and it looks like it's slowly abating but the market have been too aggressive, I think, in pricing and rate reductions yet.

And the second one is climate change and the effect it has on claims is unabated. However, by the way, by and large, we haven't seen anything yet because a lot of the losses that are increasing are increasing to asset value, not to the increased frequency in these things. What is increasing is actually small local cyclones as we call them. We had one last night in Northern Germany, not much happened. Thank God. But the key thing is that is harder to model and harder to price. So we need to stay on our toes with technical excellence.

Page A3 just is a reminder that we run this company not from quarter-to-quarter, even though we still do quarterly reporting, I wish we could move to 6 months reporting save all others a lot of time, we'll probably do that next year without, by the way, compromising on quality of analysis and data getting out of this 12 weeks to 12 weeks through. We run Allianz for the very long run, and that has 3 drivers of value: one, how do we grow the customer base, the profitable customer base of this client, how productive are we in doing that in terms of cost of risk, cost of loss and a cost to build and serve clients. And then how much -- what is the cost of capital and how efficient are we in deploying the capital. And the value capture program that we highlighted in '21, we are relentlessly executing against.

I'll give you a little bit of a flavor in a while. We are truly convinced that returns to our investors are not possible if we don't have very strong corporate health. There's a lot of debate on that. We don't believe that discounted cash flows can be great. If you don't have a company that is outstanding in the way it serves its clients and its people. I'll spend a little bit of time on it.

And then what's important for you and everybody in financial services, not to waste shareholder money, but we also believe, and that's a difference to what I think many of our peers do, we really believe there is no future without growing the franchise. There is a nice English saying that nobody ever shrink to greatness. And therefore, while we want to be extremely disciplined on capital usage, our purpose is to grow the franchise over the long run and ideally faster than others. And let's remind ourselves, we are a highly fragmented industry in difference to many others that doesn't really scale yet. We want to drive it to a growing and scalable business and that leads us forward.

Page A4 reminds you that Allianz is not a property casualty company with some remote things attached. We are one of the largest life and health companies on the planet and non-life actually #3, with very, very strong results. You see that on Page A4. The new accounting regime is actually highly beneficial in the sense that it puts a real focal point on the very stable generation and distribution of cash from the life books.

And you see there very strong normalized CSM growth, Claire-Marie is going to talk about it, continuously healthy new business margin and the growth is also coming back after a shock from the banks raising the crediting rates and people not knowing whether they should put money into the products, by the way, very similar to fixed income, that is slowly but surely changing now. You see that in Italy already. You see that in -- our U.S. Life business is growing very strongly, and you'll see that everywhere else, I'm convinced over the next few years.

And with that, the profitability and the cash distribution that is highly reliable will continue to grow. And last comment, we have changed in '23 fundamental trajectory. Our new business doesn't require capital anymore. It actually is capital generative from day 1. So over the next few years, you can expect, and I promised that 5 years ago, continuous improvements in solvency going forward.

Asset Management had a super tough year '22. Also, by the way, on investment performance, it was very hard to do extremely well with the rates up very fast and very significantly, last year significantly better. We had net inflows again last year, a very good cost-income ratio and record performance.

Let me talk about the cost income ratio. Indeed, in the asset management industry, there is pressure on margins, and many, many companies have significantly deteriorating cost-income ratios. When you look at the gross margin and the cost income ratio at PIMCO, which is the vast majority of what matters in terms of earnings, it is super resilient. It's actually best-in-class. It has remained below 60%. And they are relentlessly working on using technology in order to offset the margin presence is very successfully working and it's supporting the pivot towards more margin-rich and stickier assets and that journey will continue.

So we are finding an enormously resilient franchise and also investment performance is back to the top. So congratulations to Dan and his team for doing that. And the same is true for AGI. Net flows are back. Again, we had more than EUR 20 billion flows this year already. So that's very good. We had -- it's almost equivalent to all flows that we had last year. So Asset Management really coming back, and that's very important to understand, it's a significant driver. Together, they have EUR 8.3 billion in earnings. And if you look at the world of wealth management, this makes Allianz, if you look at it that way, one of the leading wealth managers on the planet already today.

And from a margin on asset basis, please run the numbers since the vast majority of our life assets are managed in-house, we for -- our shareholders are making money twice. So return on assets will focus on that in the Capital Markets Day is very attractive.

Now that leads me with P&C, operating profit is up. There were a lot of questions around Q4. I'll get to them later. Claire-Marie has all the details. First, we need to, with the new accounting regime, stop to look at months by months and quarter-to-quarter. You need to really for now look at the annual results because the discounting effect changes when interest rates change, are so confusing that you don't really get a handle.

Second, as you see, and we've said it in Q3 already, so this is not in hindsight change, we said there is still confusion of what goes to the loss ratio versus expense ratio, we had told you that with Q4 and the year-end closing, we'll clean some of that up. Claire-Marie will explain that to you. That explains some of the movements that we had in the system, and that's very important. And we had a very good investment result overall also in P&C.

I saw a question to overall nonoperating investment that's not pertaining to P&C only. The real issue there is and Claire-Marie will explain, we have taken -- it's why we're also now reporting economic values going away from book values. There's a lot of concern from investors around the resilience of valuations in non-listed investments. So we really want to provide maximum transparency, and we've also taken the value of real estate where they had to be down.

By the way, we'll talk about that 8% but we had 3% offset through income. And that is something that is prudent and that we have to do. It's not common practice yet everywhere in the industry. So we will always provide a fair view on what the values really are. And we are very comfortable with the provisions that we've been taking and the value of our nonlisted so-called illiquid assets. That's just what I wanted to say overall.

Page A5 talk to you about what we are doing in the value capture program. I'm not going to go into the details very much because today is for your questions. Let me just hit a 6, just to reiterate a point. A very significant part, EUR 564 billion of the insurance assets are invested with our asset managers and helping to drive scale there and very nice margin. By the way, not just margins for shareholder, but also our policyholders because, of course, we can only have money managed by our asset managers if the return are top quartile. So we are earning money twice on our customers' assets and it's going to be even better going forward. Why as we're attempting to more future and more sophisticated investments then the margins and the stickiness will be better. And that adds in -- just to put a simple number, almost EUR 1 billion in fee income in Asset Management.

Commercial lines has been not just turnaround. It's doing extremely well, not just AGCS and MidCorp that's on Page A7. And we really believe we are just starting to harvest the benefits. The key thing is to start to go to market together. So we're starting with the customers and our brokers by introducing 1 interface, 1 brand to the market and then going back into growing the business model. We had the gap in the market between AGCS and local companies that we were not capturing and the third one is actually harmonizing the tools, the infrastructure and then finally, the cost base.

This is super important because we see early signs in some markets, particularly in the U.S. where we are not so big where the cycle is turning. And we need to be aware that this super harvest is not going to stay there forever. That's why it's so important that we capture all the synergies in the segment there to be captured when we prepare for the softening of the cycle properly. And we can say the same about reinsurance still very strong but we see capacity flowing as always into the industry as there is always a super cycle, which we are much better hedged again because the vast majority of what we do is retail. And we'll talk about that later.

Platform business A8, I don't want to talk about it, Allianz Partners is a resounding success in growth and the margins coming up. We are leading in almost every segment that we're in, most importantly, in customer satisfaction. A9 is important. You know that we are really driving customer satisfaction. Last year, again, was an all-time high in terms of outperforming customer satisfaction. We have now almost 60% of our business is Life/Health and P&C, where we are the loyalty leader. Even now in Germany, we are improving very fast with grade on claims. We're the service leader now in P&C, which we haven't been for a long time. Brand is #1. By the way, our gap to the other peers is growing over time, not just for Interbrand, it's brand finance, and we are now the #1 trusted institution in our industry. And that comes on the back of a very strong employee trust base, which by the way, see also in productivity and signals rates.

We are now on employee motivation actually the benchmark in our industry. And beyond that, in terms of talent and diversity, you see that in our board. We're the only one where we're almost 50% in terms of female representation. But it's more than just gender, it's actually diversity and culture and many other things.

And A10 is something that we are very proud of. We are leading in sustainability. This is not about being woke or anything, we actually believe there is competitive advantage in leading in terms of sustainability that goes below and far beyond Net Zero, it has it many aspects to it, and we have shown you a few KPIs that we track very carefully. I think that's all I need to say.

On Page 11, I want to reiterate something because there's always the solvency question, that's a bit of a bogus question. I'll tell you, we're the only ones in our industry that have a Moody's AA2 rating. We're one of the very few that have an S&P Global AA rating. So it's just very important that resilience is for us many numbers and not just one, and we feel very strong. The other one is, what is the solvency number after combined stresses and there, we have been improving our position consistently over the years. So we feel very comfortable with the way we run this and how we distribute.

Now A12 is super important colleagues because I'm really sometimes surprised about the shortsightedness of the questions. We run Allianz and next year is going to be 135 years, and we've really learned from the past and thinking what are the continuous distributions of the cash generated for our shareholders. It's not just the level but the reliability and the consistency of what we do. And everybody is inventing a new story every day.

Page A12 tells you what the story, it's accumulated EUR 45 billion payout to shareholders, the vast majority dividend, we want to grow the dividend piece because many of our investors that are long term really look at dividend and dividend income, by the way, with an aging population that will become more and more important. And that's why we've increased the payout after careful deliberation, how strong is our continuous cash flow generation after we change all the accounts and all of these things, and it's super strong and buybacks are a supplement if and when we find that we don't use capital.

And it's a very important message, I'm going to repeat a little later. We've just after the EUR 1.5 billion announced another EUR 1 billion, if we have excess capital accumulating over the year, we will not retain it. But we do not want to go because what we do, we want to see how a year developed, particularly given how dangerous the environment is and if and then we feel we're accumulating more, we'll certainly give it back to you. Now the turnaround in performance has been rewarded last year and we'll continue to work on meeting our investor expectations over the future and not from quarter-to-quarter.

A14 is again another testimony that for long-term investors is super important. I'm not going to talk about new dividend policy in detail but we have increased dividends in 7 out of 8 years since 2015. And 7 out of 8 years, now it's a 21% increase, by the way, with the old ratchet that would have taken 3 years to get there. So you're getting 3 years in one go now and that's very important. And then the share buyback comes on top. This is, by the way, exactly in line, exactly in line with what we have communicated in 2021, what we wanted to have for EPS and cash flow in '24.

So we're exactly on track. If we are doing exactly what we think we'll do, we'll certainly exceed that. But discipline is with what drives us not a new story every day. Now that leads me to Page 15, where I think we had the biggest confusion, and I have to apologize a little bit today because we had outlook published by many of the sell-side analysts that are -- were significantly ahead of the EUR 14.8 billion midpoint that we have published today.

Now I would like you to have a little bit of a look A15, and may -- you may recognize a pattern that has been there since 2016, and that basically says with exception of COVID that we take the achieved operating profit as the midpoint, and then we expanded, we used to have a EUR 500 million up and down. We expanded that by EUR 1 billion, taking care of the higher level of operating profit.

So the market had sort of consensus was around EUR 15.5 billion, which is sort of in the upper half between us and the outlook. Let's make a little assumption, ladies and gentlemen, that Allianz is as performance aspiring as we've always been then it's a good idea to have this consensus in mind. And let's assume that our management team is super ambitious.

Now you would say, yes but why didn't you raise the outlook further? Well, why would we in the middle of a 3-year plan change the way we do outlooks. Then you would have asked us, "Okay, why is not EUR 15.9 billion why it's not EUR 15.4 billion?" So let's just agree that we are planning for the year conservatively confident that we'll do that and we'll do our very best to meet your expectations. Maybe that's the legally best way to phrase that. But I was a bit confused to see this number -- these numbers given that we're exactly and a little bit above what we expected and said would we do.

So in summary, we have -- the strategy is functioning extremely well. You get an update at the end of the year, a little bit of a hint. We want to use the very strong level of profitability, ability to grow this franchise more mostly through organically growing that but we are not excluding bolt-on M&A. This industry is super fragmented. It has lots of room for consolidation, and we want to be a winner of it. We're not putting the company in runoff by paying out 100% of the cash that we generate. We want to make sure that the cash that we don't need to grow the company goes back to you. So the very high level of profitability are benefiting our shareholders with a new dividend payout of 60% and because we are very comfortable with capital generation, we're adding EUR 1 billion share buyback right at the beginning of the year and the outlook is what it is.

And with that, I hope that was helpful. I'm passing it on to Claire-Marie.

Claire-Marie Thomas Coste-Lepoutre
CFO & Member of the Board of Management

Thank you very much, Oliver. So good afternoon, everybody. As you can see, there is a high energy in the room. So definitely, we are not slip on our laurels. So if you look at Page B3, in 2023, we actually delivered our strongest operating profit ever at EUR 14.7 billion and this is building on our very strong trajectory in terms of operating profit already in 2021 and 2022. So -- and this number has been delivered while in 2023, we have seen an extremely high level of inflation, very volatile financial markets and high frequency of natural catastrophes.

Our operating profit grew by 7% compared to last year, and so did as well our shareholder core net income. If you adjust it for the negative one-offs we have seen in 2022 that have impacted down the shareholder net income number. We emerged in 2023 with a very strong ROE at 16% and what you can also not see on this page but only towards the end, our core EPS is up 33%, and that's the outcome of both very high shareholder core net income and as well as the fact that we have performed the share buyback, which also helps that number up.

But beyond profitability, at group level, you can also see that our total business volume is up 8% in terms of internal growth and that's stemming from all our segments. So that's also a very good indicator for forward-looking value delivery here.

If we move to P&C, our operating profit clearly is slightly -- is almost at our outlook level, sorry, and is slightly up compared to last year, while we are bearing into the operating profit of the P&C segment EUR 600 million higher cat load compared to normalized expectations. So that's a solid outcome, I would say, in the environment, given as well the underlying trends of very high inflation beyond the cat effect. What we see as well on that -- on the P&C side is a very good double-digit growth, which is made of 7% price increase, which is stemming from our actions to act on the inflation side and also 4% volume growth, which is a very good level of growth we are also seeing in the underlying.

On the Life & Health side, we see as well a good growth at an excellent new business margin of 5.9%. And with this, we deliver a value of new business of EUR 4 billion. Our operating profit is very good at EUR 5.2 billion, ahead of our outlook, and that's supported by a CSM release of EUR 5 billion and strong operating investment results.

On the Asset Management side, we are also ahead of our outlook in terms of operating profit and the Asset Management segment has been managing really steadily in the 2023 financial markets. That was really not easy to navigate. We have EUR 22 billion of net inflows. We have really strong performance fees and we have a cost income ratio that is slightly better than expectations post the Voya transaction.

If we move to Page B5, and we have a look at our fourth quarter on a stand-alone basis. Here on the group side, overall, you see a very good double-digit growth that is basically reflecting already on the full year numbers. Our operating profit is at EUR 3.8 billion. That's in line with a strong second quarter and up 17% compared to last year. And our shareholder or net income follows the operating profit growth if you adjust also 2022, actually for the disposal of our recent operation.

On the P&C side, you can see that our OP is at EUR 1.6 billion, that's better compared to the third quarter but clearly not as good as the first half of the year. And here, the main driver is clearly the continuation of a higher frequency of NatCat, mainly in Germany, and the large flood we have seen in Australia. So overall, for the fourth quarter, we have EUR 300 million higher NatCat load compared to normalized. We continue to see as well the very good level of internal growth into our P&C segment. And this is close to 8% price increase that we are going to earn in 2024 into that internal growth of close to 10%.

On the Life & Health side, we also see strong new business that is mainly stemming -- in terms of growth that is mainly stemming from our U.S. operation in Italy. Again, we see a very good new business margin for the Life & Health segment in the fourth quarter that is fully in line with the year. Our CSM release is at EUR 1.3 billion. That is, again, in line with our expectations. And together with a good investment result, that allows us to deliver a strong operating profit of EUR 1.4 billion for the quarter.

If we move into the Asset Management segment, you can see our excellent operating profit that has been delivered, that's supported by our third-party asset under management, which are up 3%, excellent performance fees coming from PIMCO. And both asset managers are actually delivering better compared to last year's same quarter.

You see as well the small outflows that we have experienced in the fourth quarter. They have stabilized after October entirely. And I can already tell you that after 6 weeks into 2024, as mentioned by Oliver, as well, we are already at the same level of inflows compared to the entire year 2023, which is definitely good news as we are moving into 2024.

So moving to B7, and here you can see that both our comprehensive shareholder capital and our Solvency II ratio have developed positively in 2023. We have a strong solvency ratio at 26%. And this -- the solvency ratio has benefited from 9 percentage points of net operating earnings, which have been offset by the reflection of our new dividend policy mainly.

For those of you that are looking at our solvency ratio on quarter-to-quarter development. Again, I agree with Oliver, the certain is -- so yearly view is way more relevant in terms of development of Solvency II capital. But if you look at this one, you will see that we had a sharper drop into our solvency ratio compared to expected. And that's coming from the convexity linked to the interest rate of our solvency ratio, the real estate valuation and obviously, the reflection of our new dividend policy.

On the sensitivity side, you can see as well if you compare year-on-year that we have a slight increase of our sensitivity on the equity market side and that's related both to the convexity and some model changes. But in the underlying, there is no changes. And what I find particularly interesting is the fact that if you look consistently at the combined shock, year-on-year, it has been decreasing steadily. And so it's also the case between 2022 and 2023.

If we move to B9, here, you can see the very strong growth operating Solvency II earnings of 27%. That's offset by 16 percentage points of capital management actions, which are reflecting our new dividend policy and the EUR 1.5 billion share buyback in 2023. The new EUR 1 billion share buyback that we have announced yesterday will actually be reflected in Q1, together with the new operating Solvency II earnings, which are going to come then. Again, on this one, you can see clearly also associated with what we have been communicating in the previous quarter that the Life business is -- the Life business growth is self-funded across the entire year 2023.

And in terms of market impact, we have -- that's mainly related to the real estate re-evaluation. That is partially offset by the strong equity market developments we have seen emerging almost flat for the entire year. So overall, a strong solvency level and improving further versus 2022.

Let's move now into P&C on Page B11. So this Page B11, I find very good because here, you can see that for our entire business, we see the growth patterns, which are emerging from both pricing and volume. And something you cannot see on this page, and you can only see if you look into the details, is that if you look at the quarter-to-quarter developments of the gross pattern for retail associated to pricing, you see clearly a very steady upward momentum that we are going to earn into 2024 and is also going to continue to support the value creation even beyond 2024.

Let's move to OP on Page B13. You can see our strong operating profit at EUR 6.9 billion for the year 2023 and if you look at the operating profit [book] there, you see a slight lower underwriting result between 2022 and 2023. That's mainly linked to the EUR 500 million higher NatCat load that we have experienced in 2023 compared to 2022.

We have a very good operating investment result that is basically supported by the higher heat environment. And then you have a lot of noise in the other operating bucket. And here, and you have the detail in the table below. But here, clearly, we had some positive one-offs in 2022 and we have some negative one-offs in 2023. But going forward, you should not expect, I would say, any of those to repeat themselves, the right order of magnitude for that one should be around 0.

On the right-hand side, I have already commented -- I would say, starting from the bottom, maybe I have already commented on the growth. On the expense ratio, you see clearly our 30-bps improvement year-on-year, which is basically in line with our expectations and reflect well on our fundamental actions there. And what you see as well in that expense ratio is the normalization versus the third quarter. In the third quarter call, I mentioned to you, you should expect to see a normalization of the expense ratio, which has happened.

And clearly, this is creating a lot of noise between the loss ratio and the expense ratio on -- in terms of quarter slides. And that's mainly coming into the commercial business. So my view is that you should not read much into the quarter slides on a stand-alone basis in the fourth quarter. And the full year numbers are definitely much better reference towards 2024.

So in terms of combined ratio, clearly, you can see the very good, combined ratio we are delivering on the commercial side, also a very similar level compared to last year. And on the retail side, we are at EUR 95.8 million. This is clearly higher than we had expected at the beginning of the year. But I think given the cat and the inflationary environment in 2023, this is a solid technical results from my perspective, and that's clearly demonstrating as well the strength of our experts around the globe that have been capable of managing well in that environment.

And beyond that, we clearly expect this combined ratio to improve in 2024 as we are going to earn the benefits of all the actions we have taken both on the NatCat and further NatCat pricing enhancement where we start from a very strong base but clearly, we are going to continue on that side. But as well, as I have already mentioned, in the earning of the pricing actions to fight the inflationary environment that are going to come through going forward.

Let's move to Page B15, and let's have a closer look at the combined ratio by operating entities. And you can see, first of all, on this page that all our combined ratios are below 100%. It has not happened for a bit of time. So I think that's a good yearly outcome overall and that's also demonstrating the strength of our diversified portfolio across the globe.

Secondly, you see very clearly the effect of NatCat, in particular, on Germany, Switzerland and Australia. And then if you look at the absolute level of combined ratio for many of our operating entities, and as I am listening as well to many of the release of some of the competitors in the local markets to our operating entities, I think they are performing really well in difficult environments, and we will recognize as well that from an absolute value perspective, if you look at Italy, if you look at CEE, if you look at Switzerland and Germany, this is really a good performance in their local market as well.

For a very challenging market like U.K. and Spain, we see as well on this page that they are improving after 2022, clearly. Australia is clearly not where we want it to be. And they have also suffered from a high level of negative runoff that also has impacted the market in general associated to a late NatCat in 2022, that came with very high inflation into 2023. But what I think on Australia more fundamentally is that we have a really good team there. They are working super hard. And what we see as well associated with the actions they have undertaken is that we see the underlying improvements that are coming through in line with our expectation in the fundamentals.

On the commercial side, clearly, we see a very strong market but also the very strong performance of our operating entities with AGCS and Allianz Trade with an excellent combined ratio and double-digit operating profit growth.

Let's move to Page B17. Here, you can see that like previous quarters, our investment results are excellent as we are earning the higher yields. Our reinvestment yields are also in line with previous quarter, 1 percentage point higher versus current yield. And you can see as well that our interest accretion for 2023 is at minus EUR 700 million for the year, which is in line with our expectation. And in 2024, we expect that number to be close to EUR 1.2 billion as we are going to pay for the higher discounting we have experienced in 2023. So overall, you should expect in 2024, a fairly stable operating investment result to emerge.

So let me recap on P&C. What do we see? We see an excellent performance in commercial with a really good outlook as well for 2024. And in retail, strong price-driven growth with quarter-to-quarter momentum that we expect to earn into 2024 and forward. And despite an elevated level of NatCat and inflationary trends, we have a solid technical result and a structured improvement into our underperforming entities in 2023 as well. So this makes us overall confident for 2024.

Let's move to Life and let's have a look at Page B19. Here, I mentioned at the -- when we had the overview page, I mentioned our solid growth, which is around 5%, and that growth of 5% translate itself into a slightly lower level of growth in terms of PVNBP, given the discounting effect. You can see that actually our growth is mainly emerging from the Life but still with very solid fundamentals in the other operating entities. Announced Leben add in 2023, slightly less single premium business given the competition with the banking products but fundamentally, we are seeing higher recurring business versus 2022, which is also really good because it's going to help us going forward and the recurring business is a good business also to have on board.

On the new business margin side, we see a stable new business margin in the underlying of that new business margin. We have some positive effects coming from the economics, obviously, across all our operating entities. And we have a slightly negative effect coming from the spread decrease of AZ Life and some update of our noneconomic assumptions. The value of new business is up 4 percentage points actually FX adjusted and -- sorry, is up by 4% FX-adjusted and this is coming both from volume and the economics with contribution across the entire portfolio. So also a good really diverse contribution from our operating entities.

Let's move into the CSM development on Page B21. And here, you can see that the solid picture on the value of that new business that I just covered is confirmed by our normal CSM growth, which emerged at 4.9% for the entire year. And this is in the higher range of our 4% to 5% expectation. So that's definitely a very good outcome. What we see as well is that we have a strong CSM release of EUR 5 billion for the entire year, which is in line with our expectations. And you see as well a lot of noise on that work that is coming from the noneconomic variances.

And here, it's due from the transition from -- 2023 being a transitionary year into IFRS 17. We had to process a number of one-offs, a number of model changes, which have basically [no of] super limited impact into our future profitability. So you should expect much less movements in the future into that bucket. And also if you clean from the noise, the CSM work in 2023, the minus EUR 2.7 million is actually a minus EUR 800 million, which is much smaller and really, I think, the right type of reference you should have in mind.

In terms of sensitivities, if you look at the right-hand side of that chart, you can really observe that, first of all, we have really small sensitivities into our CSM and secondly, that those sensitivities are further reduced compared to last year. So that's really demonstrating that these CSM is actually quite a stable beast. And you should really expect stable emergence in terms of operating profit going forward to come from that CSM development.

On Page B23, you can as well see that the CSM release of EUR 5 billion is emerging into an operating profit of EUR 5.2 billion for 2023. And the main element, I would say, in between that has been supporting further the growth towards the operating profit is actually the good operating investment result we have seen in 2023.

I also want to use this opportunity as we are having a look at the operating investment results that -- to highlight that we have changed our backup. We have actually enhanced it. So I really hope you like it. And here, in particular, we are no longer displaying our numbers on a book value but we have moved to a fair value presentation. So that's changing a little bit, obviously. So you should not -- you should take that into account when you do year-on-year comparison. Also maybe one last point. Obviously, between the 2 columns, 2022 and 2023, you should not read too much into that comparison because they have limited comparability due to the transitionary effect associated to IFRS 17.

Let's move to Page B25, and let's have a further look at our results across operating entities. And here, you can see that all our operating entities are actually contributing well to our normalized CSM growth except France that is -- and that's mainly due to the lapses that are linked to our Luxembourg business that we have seen at the beginning of the year. And to a lower extent, for CEE but that's broadly in line with our expectations in terms of normalized CSM growth.

On the operating profit side, I just want to highlight is the Life where you see a very high level of growth in terms of year-on-year comparison. If you correct for the transitionary effect associated with IFRS 17, we are actually at a growth level that is in the mid-single-digit level. So let me recap on Life and Health. What do we see here? I'm -- in a challenging environment, both when it comes to our investment product and the inflationary effects that we have seen also on the health and protection side. We have well mitigated those effects during the year. We have a solid growth that is around 5%, both in terms of top line and CSM that is to be earned in the future. Our operating profit is well above our expectations. And again, this makes us confident on our ability to also deliver in 2024.

On the asset management side, on Page B27, you can see that our assets under management reached EUR 2.2 trillion, and we are up 4 percentage points compared to last year. If we move to Page B29, and we have a look at our third-party asset under management, we are up 5% compared to last year. This is clearly at a lower level compared to our expectations at the beginning of 2023, where we were expecting to see also a normalization of the shape of the yield curve that has not materialized in 2023. So I really think this development of the third-party assets under management is a really good job in the -- given the volatility of the markets we have experienced in 2023.

And here, we see positive net flows of approximately EUR 22 billion that are stemming from PIMCO. And the markets have been supportive in terms of development, in particular towards the end of the year, while FX have negatively impacted the development overall.

Let's move to Page B31. And let's have a look at our revenues. So if you FX adjust our revenues in total, they are actually up EUR 200 million versus last year. We have benefited from excellent performance fees on the PIMCO side. That is entirely to the credit of the performance of the portfolio managers and this is partially offset by the lower revenues -- lower revenue driven by the level of the asset under management. As basically the level of assets under management on average in 2023 has been lower compared to the level of assets under management in 2022.

What you can see is that in terms of margin, PIMCO is slightly up compared to last year. And here, I also want to emphasize the point that Oliver was making because I was looking at the historical trajectory at -- of the PIMCO margin. And if you look over the last 7 years, it's actually very impressive how stable it has been. On the level of AGI, actually also the level of fee margin is in line with our expectations post the Voya transaction.

Let's move to the operating profit development on Page B33. Overall, our operating profit, FX adjusted image slightly up compared to last year. Our cost income ratio is almost stable at 61.3% and supports really well the delivery. For 2024, clearly, we aim our cost-income ratio to move closer to 61% with, in particular, AGI to continue to improve its own cost-income ratio towards 65% and beyond midterm. So overall, our asset management business did deliver above our operating profit expectation in the volatile environment in 2023 and we expect steady improvement on the fundamentals for 2024.

Page B 35, I'm going to skip. It's actually better than expected, and we got very nice support as well coming from the banking business. On Page B37, we can have a look at the strength of our cash remittances at group level. In 2023, our remittances reached EUR 8 billion, and we have a ratio of remittance that is at 124%. It's quite high and that's related to the fact that we had some dedicated capital actions, and as well linked to the fact that our net income structurally was lower in 2022.

Still, if you look fundamentally at those developments, on average, we deliver above 80% of net remittances. For me, this is the right level of magnitude that you need to have in mind for the future. And secondly, what you can clearly see when you look at the details on a segment-by-segment basis on how historically those remittances have developed, you clearly see the strength of our 3-pillar strategy that is allowing to have basically offsetting our compensating effect over time and to deliver very steadily on this above 80% net remittance that we see year-on-year.

Let's move to Page B39, and let's have a look at our net income. So basically, I don't want so much to comment on the super detail in between the operating profit and the net income because there is a lot of noise as well associated with the Voya transaction with the Structured Alpha, the Russian disposal, the hyperinflation effects and so on and so forth. But fundamentally when you move from operating profit to net income, we have been in 2023, well supported by our tax rate, which has been benefiting from both a positive mix effect and also some positive one-offs for 2024 [indiscernible], you should expect a normalized tax rate level that is closer to 25%. And here, you see again our core earnings per share, EUR 22.61, and as I was mentioning, up 33% and that makes us really proud on the Allianz Group to deliver such increased value to our shareholders.

Let's move to our outlook on Page B41. And you can see that we have set our outlook at EUR 14.8 billion, plus/minus EUR 1 billion. As mentioned by Oliver already that's up 4 percentage point compared to -- 4% compared to last year midpoint. And actually, the approach we have taken to fix our outlook is just leveraging our tradition, which is to fix our outlook at the actual level in terms of delivery. And we have simply slightly rounded it up this year because our operating profit today is at [EUR 14.746 billion.] So we felt a little bit adventurous, and we have granted basically a midpoint at EUR 14.8 billion.

So look apart, if you look at our P&C segment, the key drivers for the EUR 7.3 billion outlook -- is, first of all, which is increasing by EUR 300 million compared to last year. What we have done in the underlying. We reflect on the growth of 6% for the total business volume and 5% for our insurance revenue, and we have set our combined ratio between 93% and 94% in the outlook. What we have changed in the underlying of the combined ratio is that we have increased our NatCat load to 3 percentage points. And we will see in 2023 that -- in 2024, sorry, we have estimated that we will see 1 percentage point less discounting benefit into the year. And we have also planned with an operating profit on the investment side that is rather flat compared to 2023.

On the Life and Health side, we have set actually the midpoint at the level of the actual for 2023. And that's recognizing first, the growth, we expect to continue to see on the Life & Health business. But at the same time, we had some positive one-offs on the investment operating side that have supported 2023. So we are recognizing those 2 effects.

Our Asset Management is as well in line with the actual. Clearly, last year, we were expecting, as I already mentioned, the shape of the yield curve to normalize. It has not been the case. So we took a fairly cautious approach in setting the -- in setting the outlook for the Asset Management business. But if you engage with our PIMCO CEO, he's clearly super bullish and expect wall of money to come his way, which we would welcome. And clearly, that will translate itself into a very good performance for our Asset Management segment.

Our Corporate segment has been set conservatively as we always do at minus EUR 800 million for the year. So overall, I think this is a confident outlook. We feel strong about, but at the same time, we are clearly recognizing the macro environment we are operating into. There has been a lot of instability over the last 2 years. And there is still a lot of instability as we are going into 2024. So this is what we are also reflecting in this midpoint. And in addition to that, we clearly have a range around the midpoint, and this is leaving a lot of leeway for overperformance in 2024.
With this, I hand over back to you, Oliver, for questions.

Question and Answer

Oliver Schmidt
Head of Investor Relations

All right. Thanks, Oliver and Claire-Marie for your presentations, and we are now happy to take any questions. And we will take the first question from Andrew Sinclair from Bank of America.

Andrew Sinclair
BofA Securities, Research Division

Thank you very much, Oliver, and I'm sure will not the only person to say thank you very much for the time you've given me and others in the role. You really have made the insurance IR role what this today. So thank you very much for that.

So on to the questions. First was just looking at the discounting benefit, you've talked about 2 percentage points of benefit in 2024. And I fully understand we should expect a lower benefit in '24 than '23. But the drop from 2.9 points to 2 points, Euro roughly seems pretty stark. Just wondered if you can give us a little bit of color in terms of how you get to that 2% assumption.

Second question was just on cash and uses of that. It's great to see the higher dividend payout. I just want to discuss the uses of the cash generated over and above the dividend. I think you've broadly historically talked about a rule of thumb of kind of half of cash over and above [indiscernible] used for buybacks, half for M&A. I guess that we've got a higher dividend payout ratio, we should probably think about that a little bit differently. But just if you can give us a little bit more color, just expanding on some of the comments you made earlier in your introductory remarks.

And third was just on debt leverage. Clearly no issues with where you are today but it looks like you might be drifting slightly higher than peers if you keep your leverage ratio steady. Just some thoughts in terms of how you look forward for the debt stack and leverage ratio in a higher rates world.

Claire-Marie Thomas Coste-Lepoutre
CFO & Member of the Board of Management

Okay. So let me maybe start on the use on the cash side. So I think like -- Andrew, we are very much in line with what we have always mentioned to you. Our logic is clearly to look at -- to continue looking at bolt-on M&A, so like really adding certain smart acquisition that would add value, also midterm, long term to the value creation by contributing positively to the growth opportunity we see in the insurance market but also on the asset management side. You may have seen as an example that yesterday, we have invested into AlTi, which is clearly building on -- I mean, the logic is actually to look at our distribution capabilities in the ultra-high net worth individual environment by building on their franchise, if you want, that is mainly U.S. oriented but leveraging also our access to Asia and Europe, as an example.

So really playing into that logic of convergence between Life and Asset Management, as Oliver just described. So a long story short, to come back to your question directly, we will keep the same rigor. The logic is at, on average, 50% M&A, 50% share buyback. And as always, we'll keep the capital management approach that we have always had, and we will not leave any money on the table. If we see, I mean, the need, we will clearly also provide back our capital -- our capital as required under the shape or form of share buyback without hesitation.

On the debt leverage, I'm not sure where you see the point in terms of comparison compared to peers. The last time I had a look at it, actually, we were lower compared to peers in terms of in terms of debt leverage. We have no -- and actually also the structure of our debt is slightly different because we use more senior financing as opposed to also more subordinated type of debt, which is also leaving us with some type of leeway, if you want, in the case, we wouldn't want to strengthen the quality of our debt to strengthen our solvency ratio. So that's definitely something we can do.

But at this point in time, we have no plan to neither reduce, neither increase our debt leverage. We feel quite good about it. But we also still have opportunities to first increase still being in our rating requirements. And again, we could also change a bit the structure of our debt level.

Maybe then on the discounting benefit. The way we are computing it is that you take actually the average level of reserve, we are planning to have on an undiscounted basis. Clearly, in 2023, we had slightly higher level of reserve, if you want, because we had a high level of NatCat in the second half of the year. So that's actually increasing the level of P&C reserve in 2023, so slightly lower 2024. Our average duration on the P&C portfolio is 2 years. And then we use a discounting rate. So the discounting rate in 2023 was approximately 4% and we estimate that for 2024, it will be approximately 3.2%.

And so if you do that math, more or less you have EUR 2 billion discounting. So we have had EUR 2 billion discounting benefit in 2023, and we would expect approximately EUR 1.5 billion discounting benefit in 2024. So that's the exact delta between the 3-percentage point combined ratio compared to a 2-percentage point combined ratio with the growth I was mentioning to the top line.

Unknown Analyst

I have 2 questions as well. The first one is on German motor. Can you maybe say talk about what was the profit of the underwriting last year, the rate rise of the new and what we could expect in terms of combined ratio or outcome in 2024, but maybe volume and pricing as well.

The second is a slight complaint, not a complaint but was trying to explain to myself the share price reaction. The way I did it is I was looking at your long-term graphs showing the operating profit in Life and Asset Management and non-life growing at about 4% to 5%. And then historically, we've had this 2% from buybacks so that per share, it's up 6%. If I were at -- an investors today, I'd say, well, I get the same 4% going forward but I'm going to miss the 2 because there's less buybacks. So I just wondered whether you can address this the way I interpreted is you're a bit more confident than normal than 2024, we would have stronger operating profit growth.

And then the last one is similar as the previous one, so you've given us a lovely insight into the discounting. Can you give us some insight into the unwind of the discount?

Claire-Marie Thomas Coste-Lepoutre
CFO & Member of the Board of Management

Okay. Let me start maybe with the question on the motor side. On the -- so overall, for the entire Allianz portfolio, our combined ratio in motor has been 97.9%. And you know we don't comment in details into the performance into our market. What I can tell you is that our motor book in Germany has been outperforming the market by a bit more than 10 percentage points, that's our estimate at this point in time. And we have seen good level of pricing that we have we have injected because we were in the need to do that given the increased severity level we have seen into the portfolio. Really related to the fact that -- I mean the spare parts have increased dramatically, also the working hours have also increased a lot.

And what I want to highlight there, which I think is particularly interesting is the fact that there has been a lot of actions from the claims colleagues actually to address fundamentally inflationary effect into the claims side, in order -- in particular, to reduce the repricing or the up pricing that is required for our customers. And there, they have really done a very good job. We see that across the Allianz portfolio. And that's also helping in terms of retention of our customers and that's also why I think we see good growth in terms of number of clients on the motor side but on the retail side more broadly.

Oliver Bate
Chairman of the Management Board & CEO

Can I add?

Claire-Marie Thomas Coste-Lepoutre
CFO & Member of the Board of Management

Yes, sure.

Oliver Bate
Chairman of the Management Board & CEO

And I'll leave it normally into Claire-Marie. '23 was an enormously important year for us in Germany because of the prolonged and strong inflation, so to give you an example, EV car manufacturers are now charging up to EUR 300 per hour repair, which is ridiculous. The key thing that you need to know is that it's not that we just took massive price increases that are earning into the premium now. We wanted to see after discounts and the most important thing is churn in the portfolio.

But actually, the churn is extremely low, right? So we've earned out of the premium in the German portfolio, 10% net increase in premium, which you're going to see in earnings for the year, which is extremely strong. And our renewal across both the traditional business and direct, for the first time that I can remember, has outperformed the market leaders in terms of net portfolio growth. So we have both massive earned premium improvements, 10 points better than the market and we're growing the customer base for the first time. So it's been hugely successful, and we hope to continue that year.

Where are we cautious? We are cautious on what is the remaining inflation that we're going to see coming through claims. That's why we're a bit careful. But as Claire-Marie said, we expect a lot of improvement of flow through this year. When we talk about Q1, particularly Q2, we'll provide you with the evidence. So with that add-back but it's very important, our strategy to become, and we are now the service leader in the country based on NPS, which we aren't for at least a decade that's now paying into growth and margin advantage, which we haven't had in Germany as long as I can think.

Claire-Marie Thomas Coste-Lepoutre
CFO & Member of the Board of Management

So let me maybe come back to your question on the interest accretion. So it's a bit technical, right, because you have the effect of the locked-in rate, which are coming on a layering approach, if you want. So you can have a look at the deeper technicalities, which I'm sure you know well about but they are in the Allianz series #11 when we have presented how it works. But basically, our average discount rate for the reserves at year-end 2022, in 2023 was 1.1% and for 2024, our estimate is made as follows. You take the average discount rate of the reserve 2022 and before at 1.1%, which is consistent with 2023.

And then you take the average discount rate of our reserve 2023, which is at 4.1%. And then you take -- and that's basically what leads you to our estimated interest accretion of EUR 1.2 billion for the outlook. And that's really consistent with what you will find as well on the Allianz series detail.

Oliver Bate
Chairman of the Management Board & CEO

So there was a question, and I would like to hit that because Claire-Marie is very cautious on the EPS growth and the numbers we've had. I think it's a very important one. The issue is that we are not reducing the level of total payouts. So that has been over the last year, depending on how you run the numbers and you account for COVID between 75% and 78% that you know. And then people will say today, maybe that's part of the explanation. Well, the dividend plus the EUR 1 billion share buyback is only 71% and sort of EUR 500 million share buyback missing.

Guys, we are in the 6 weeks of this year. And when you think about capital returns, they happen over the course of a year. So we have said nowhere that we are not going to grow earnings as we have been growing earnings. We are exactly on course for what we promised in 2021 for 2024, that's both on returns and that's in EPS growth.

So now going back, and I think that's the big misinterpretation of today because people said, well, you could have done EUR 1.5 billion or whatever. Of course, we could have. But why would we do this at the beginning of the year with a strong profile. So I don't believe that you always put your most beautiful toys into the window at the first part of the year. We really are Allianz and we deliver consistently. So we are not going to go back on what we have promised in the past. Is that helpful?

Unknown Analyst

Super.

Oliver Schmidt
Head of Investor Relations

We will take the next question from Peter Eliot from Kepler Cheuvreux. Peter?

Peter Eliot
Kepler Cheuvreux, Research Division

And yes, obviously, to echo, very, very sorry to see you go Oliver, we'll be very strange without you. Three questions from me, if I may, please. First one on the combined ratio. It's very unfair to quote somebody who has already left but Giulio Was talking late last year about a 92% combined ratio being achievable near term, possibly even down to 91%. Obviously, your guidance of 93% to 94% has some prudence and probably interest rates are a little bit lower than when you said that and maybe some more claims data points on sort of claims inflation. But I'm just wondering if you can sort of net square or just update us on what's changed recently and how much of the gap there is in that, would be very helpful?

The second one was on solvency, and I certainly agree that the reported solvency is not important, and you managed your ratio very well. But the market does look at it a little bit. So I was just wondering if you could add any thoughts on the Solvency II review, and whether it might -- yes, I mean, one of your peers thought it might have a significant benefit for them. So I just -- I was interested in if you have any recent thoughts on that.

And third question on the dividend and buyback policy. We've seen lots of changes to this over the years. They've all been very good changes. So I'm certainly not complaining that each time we see a change, it's been for the better. But I'm just wondering whether we should sort of expect you to keep being dynamic in your approach there and whether we should sort of expect regular tweaks or whether this maybe is a sustainable one?

Claire-Marie Thomas Coste-Lepoutre
CFO & Member of the Board of Management

So thanks a lot, Peter. Let me maybe start with the Solvency II review. So as you know, the -- we have now reached a further level in that -- in advancing that Solvency II review. So for us, it will also come with a positive effect that you should expect basically in the upper range of single-digit effect on our solvency ratio. Then on the combined ratio point. So clearly, I think this 92% being achievable going forward. I think what has changed is the discounting effect that is coming with 1 percentage point negative impact, in our case into our combined ratio.

More fundamentally, I would agree with Giulio that this order of magnitude of 92% but bit discounting effect that may create a bit of volatility. But by the way, if you have this volatility on the combined ratio, you will not see the volatility on the operating investment results. So all in all, you should get the same value of operating profit value creation, which is very good, and that's one of the benefit of IFRS 17 from my perspective.

What we still want to also -- and that will be part certainly of the capital market day conversation, we want to also have with you is that we achieve this type of margin, which I think is extremely strong, if you're at 93% or at 92%, so I think the order of magnitude we are currently discussing, that's a very good result, right?

And then comes the question is that better to further try to harvest but shrinking or basically to keep stable and actually create value also via the growth, which is definitely also the approach we are taking because we are convinced that we can steadily grew value at constant margin, and we see a lot of upside potential associated with that logic on our end.

Then on the dividend and the share buyback policy. We just changed it, right? So I don't think we plan to change it immediately tomorrow. We -- it has been -- we have been carefully looking at it. We are really balancing it in the current environment. We have stress tested it and we think it's the right approach for the Allianz Group right now and certainly going forward at this point in time.

Oliver Schmidt
Head of Investor Relations

Thanks, Peter. We will take the next question from James Shuck from Citi.

James Austin Shuck
Citigroup Inc., Research Division

And I'll be missing Schmidt and [indiscernible] Claire-Marie. My first question is on the dividend. So you're linking that to adjusted net income included in adjusted net income, I think, are the realized GAAP capital gains and losses as well as [indiscernible] losses. Both those numbers were quite negative in 2023. I think we had minus EUR 0.3 million. Can you give us some sort of guidance for expectations for harvesting rate on realized losses and the expected credit losses, please?

Secondly, on cyber insurance, Oliver, I'm very intrigued by your relationship with coalition, it's an unusual situation where you're both a panel member and an investor. And I think you're now also joining the Board. I guess my question really is what is your attitude towards cyber? Is that something that you would consider a sort of mid-single-digit billion type acquisition? Or is it just a wrong risk profile for Allianz?

And then just finally, quickly, on the share buyback, Oliver, I think you mentioned that the share buyback was something that you could revisit sort of every quarter and throughout the year. I haven't seen some comments [indiscernible] it was very much an annual decision but perhaps you just clarify that for me, please.

Oliver Bate
Chairman of the Management Board & CEO

So I'll start with coalition and then I'll leave with it. We would obviously -- and let me start with the dividend versus the share buyback. As I said, let me reiterate. We have -- our long-term investors have clearly stated they have a preference for predictable distribution and cash flows and dividend. And that has to do with many, many, many structural items.

The second thing is the total cash distribution will not change as it is with the EPS growth, Michael Huttner. So if you answer your question yourself is we would look at excess cash very carefully. The issue is we don't look at it every day, and we don't want to do that every quarter. So we would love to move to a more stable base. However, given that we are -- if you take the numbers today at 71% cash distribution and saying, if what Mr. Bate says, remains the baseline at 75%, then you can imagine flexibility if and when it accumulates.

But we have no incentive and Allianz in the board anymore to sit on the cash, which we haven't had the last 6 or 7 years. So nothing changes with that, only the structure of the cash return switches, which for some people that run it purely based on spreadsheets say, "Ah, but the EPS accretion looks slightly different". It's a different view in terms of what people apply cost of capital to, which is typically missing in the EPS calculation because people do apply a different cost of capital for companies that have a higher regular and growing dividend, and that's the only comment I would have.

Coalition is a very important point. I joined the Board. It is a company that we have a participation and quite a significant one and it's a strategic partner. Why? It's a highly specialized business. And the coalition business model for me is the most advanced that exists in the world because both in underwriting but permanent monitoring of the risk, you don't ask once for information, but the clients are permanently screens for cyber-attacks.

By the way, there is a service that continuously helping to even defend against cyber-attacks and then help them if they had one in order to clean up, which for me is the business model of the future. So it's a strategic investment and a strategic partnership to improve the profitability. And by the way, the customer service in this segment. And this is not a temporary thing and gig that we do.

Now the issue is, to answer your question more precisely, it is a global phenomenon and a global risk. However, regulation is very local, right? In the U.S., we have 50 regulators, and the way you do go-to-market strategy and we bring it also to Germany is very different. So our access in Europe, our ability to work with distributors, both agents and brokers and others, it's very, very strong. So we have different roles in different markets. In the U.S., we are more of an investor because we don't play a large role, in the U.S. P&C market, we are a leader, if not the leader in many markets in Europe, and there we play a different role in the partnership with coalition. Is that helpful?

James Austin Shuck
Citigroup Inc., Research Division

Yes.

Oliver Bate
Chairman of the Management Board & CEO

And we should support them in many ways because they have both admitted lines, they have excess lines. I think there's a thought also to have some more flexibility in other areas. So we are really supporting the entire but we are having for our own appetite, a very strict way to do it. So if other markets have a higher appetite and they can write that why would we constrain them.

Now the last question, I'll leave with Claire-Marie.

Claire-Marie Thomas Coste-Lepoutre
CFO & Member of the Board of Management

[Foreign Language], James. So on your question associated to what we are using as a reference. So we try to describe it somewhat in our new dividend policy. But I think what you should lose as a reference is -- so it's quite close to our core shareholder net income that we are also further adjusted for the interest rate associated with our RT1 bonds, which I think makes sense to do.

But even if you step back further and look at the movements we are seeing now. It's even an easy way. I think an easy proxy will be just to also apply it directly on the net income side because we expect to see midterm to happen is that the market movements are going to stabilize around 0 and the rest, which is basically the effect of this RT1 offset by the purchase GAAP adjustment is basically going to neutralize itself. So it's going to be neutral, if you want, overall. So what we do is that you take the net income as reference, we remove the volatility and the other items are simply balancing each other.

James Austin Shuck
Citigroup Inc., Research Division

Sure. Are you able to give an outlook for the realized gains and losses and ECL, please?

Claire-Marie Thomas Coste-Lepoutre
CFO & Member of the Board of Management

Yes, it wasn't very clear. Could you repeat, James?

James Austin Shuck
Citigroup Inc., Research Division

Yes, I was just asking if you were able to give an outlook for the realized gains and losses and the expected credit losses in '24, please.

Claire-Marie Thomas Coste-Lepoutre
CFO & Member of the Board of Management

So I think yes, I would -- I think what -- the way we have looked at it when we produce our outlook was close to 0.

Oliver Schmidt
Head of Investor Relations

Thank you, James. We will take the next question from Iain Pearce from BNP Paribas.

Iain Pearce
BNP Paribas Exane, Research Division

Firstly, just to echo the sentiments and say thanks to Oliver, for all your help over the years.

On the questions, firstly, on remittances. Why was the P&C remittance down year-on-year? I mean capital generation looks good. I'm just trying to understand why there was a bit more remittance of P&C. And on the EUR 1 billion excess capital remittance, I'm assuming that was mainly in the Life segment. Was there anything sort of one-off or any subsidiary that was a major contributor to that remittance, please?

On the PIMCO run rate on flows obviously very nice at the start of this year. Is there anything again that you'd say was one-off? Or do you think that's a sustainable run rate? Any large institutional flows in that 6-week period, I'd be good to know that.

And then just on the illiquid assets. I think you sort of talked about real estate taking an 8-point hit over the course of '23 on valuation. Do you think you're done there now? And on PE, have you got any information on sort of the hit or any write-downs that you've taken in private equity over the course of '23? That would really useful as well.

Claire-Marie Thomas Coste-Lepoutre
CFO & Member of the Board of Management

So let me start maybe with the remittances on year-on-year on the P&C side. So clearly, what we see here is that it's the effect of the growth. Indeed, we need some capital to sustain the P&C growth at the first effect. The second effect in the underlying is certainly coming from the cost of reinsurance, which have been increasing, we have been retaining more, if you want, also compared to before. So that's also contributing to the development on the P&C side.

On the EUR 1 billion excess capital that we have seen in 2023 is actually coming from both P&C and Life & Health. And structurally, I think we are really looking at remittances very actively always across the board. That's part of the way we do business. So I expect as well in 2024 and for wants to continue to have dedicated also one-offs that are going to emerge as well on the remittance side for our business. So that's really part of the active working we are doing there.

On PIMCO side, I mean, obviously, I don't have a crystal ball. So that's not an easy one to estimate. I will say, but what we see is clearly and you already see that as well partially in 2023. In 2023, PIMCO had only 2 months where they were a little bit -- they were negative inflows. All other amounts have been positive, and we have seen a momentum. Clearly, beginning of the year is very positive for PIMCO.

And also, more importantly, as Oliver mentioned, we see this is going into -- we don't see a bifurcation between in terms of inflows going more into passive as opposed to active. So that's very supportive of the PIMCO trajectory. If you discuss with Roman is definitely convinced that this is going to sustain itself also for 2024. But there again, and that's why our outlook is where it is. We don't know at this point in time.

Anything you would want to add Oliver, on that one?

On the illiquid assets, overall. So first of all, we feel really good with the valuation and the quality of our portfolio. You know that we are liability-driven investor, and we are matching the profile of our investment portfolio to the profile of our liabilities. That's very important. And we -- and so historically, it means that for our longer-tail type of liabilities, we have always leveraged illiquid assets. And we have a very long experience. We have decades of experience in managing illiquid assets. So we have expertise in house. We have very diversified we have high quality in our illiquid assets. So we feel strong about the assets we are holding.

In addition to that one, we have been performing with our auditors also as part of 2023 to just make sure that we are doing also the valuation the right way. And we have reflected that into our fair value assessment into the year-end numbers. So that's the approach we have taken. And for 2024, at this point in time, we have reflected what we think is going to materialize in terms of valuation in the year-end numbers.

Oliver Schmidt
Head of Investor Relations

Thanks, Ian. All right. The next caller is Vinit Malhotra from Mediobanca.

Vinit Malhotra
Mediobanca - Banca di credito finanziario S.p.A., Research Division

Yes. And I'll keep it brief because I know we might be running off time. Just on Slide 6B, please. On the Life side, could you -- can you just say to us how to read this Life guidance of between 4% and 5% CSM growth and 8% to 9% CSM relief? So in other words, how should we inform ourselves that which level today? Because one or the other level in this is making -- will make a huge difference to the Life operating profit. So I'm just curious, what's driving that?

And second, very quick follow-up is on -- check is on the solvency sensitivities. So it has been very, very tight around the interest rate levels for quite a few quarters now but I just see a slightly like a minus 5% or 50 bps lower interest rate. So I'm just curious if there's something this changed or just a rounding error or something like that?

Claire-Marie Thomas Coste-Lepoutre
CFO & Member of the Board of Management

Okay. Let me start with the first question. I did not understood well your second question but maybe we go to it afterwards. So on this CSM development and you're right, I mean, that's a very important question because it's not always easy to read properly this CSM development, right? So how does that work? We get our CSM at inception, which is computed in risk-free rate in a risk neutral environment. And you need to look at it together with the expected in-force, which basically reflect what is the type of return. We think we are going to generate in a real-world perspective. We compare this one against the CSM release, right? And this gives us what is -- what we think is a year-to-date normalized growth of our CSM. So it gives you an indication compared to the release, how much do we think we are -- we have generated in terms of forward-looking value creation, right?

And -- so that's the first dimension. We think that -- so we estimate that quarterly run rate of our expected in-force, if you want, in-force return is approximately EUR 700 million per quarter, which is like the order of magnitude you should have in mind. Then when you take overall CSM, the CSM release is estimated to be every year, basically on a yearly basis, between 8% and 9% per year. So as such, if you take our stock and you take a ratio between 8% and 9%, basically, you achieved this approximately EUR 5 billion CSM release per year, which then is going to go into our operating profit with the additional movements that you can see on the next page.

Does that answer your question or?

Vinit Malhotra
Mediobanca - Banca di credito finanziario S.p.A., Research Division

Yes, yes. I'm just curious that if [amplitude] 8% or 9%, what are the business drivers for that, if there's anything to note? Like is it more protection? Is it more single premium or there's nothing that gives quite a unpredictable available or...

Claire-Marie Thomas Coste-Lepoutre
CFO & Member of the Board of Management

No. Actually, just linked to the business mix, right? It's done out of many different operating entities, which are coming with different profile in terms of portfolio. So I cannot -- I mean, it's that just an indication of what you should expect in terms of range. It will depend on the mix, but that's a good proxy to go between the 8% and 9%. I mean if you look at it for this year, we are more at 9%. That's what I am using personally when I am doing my own proxy. So if you want to use the CFO proxy, you take 9%.

And would you mind repeating then maybe your second question?

Vinit Malhotra
Mediobanca - Banca di credito finanziario S.p.A., Research Division

Just on the Solvency sensitivities, where there's a slight increase in the interest rate gearing to solvency and just quickly if we came to a slide, which has that information. But it's just gone up a little bit. I was -- because in the past, it's been very tightly managed. I am on Slide B7 where the minus 50 bps is now minus 5%, used to be minus 1%. So I'm just curious if you just more relaxed about this or it's just a rounding error?

Claire-Marie Thomas Coste-Lepoutre
CFO & Member of the Board of Management

No. Indeed, I mean like it's also linked to the interest rate convexity that we have in the underlying of the Solvency II ratio. And if you look at the absolute level of interest rate at year-end 2023, it was actually lower compared to absolute level of interest rate at year-end 2022, meaning that then you have slightly less policy holder absorption capacity into the solvency ratio. At that level of interest rate, from my perspective, you should not read much into that increased level of sensitivity.

Oliver Schmidt
Head of Investor Relations

All right. Thank you, Vinit. I have one last analyst in my queue here, and that's William Hawkins from KBW. William, you're definitely -- your last but definitely not least.

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

That's great. At the risk of repeating all my colleagues, thank you all of your outstanding contribution to Allianz IR function and the leadership you've offered across the European insurance space as the IR profession has developed. A few people have stuck with it and contributed like you have. And I think [indiscernible] I think you first took a phone call from me in 1997. I honestly think you deserve a medal. So thank you for your hard work.

A few questions, please. I do want to come back to the long-term outlook, Oliver better that you've been focusing on. How are you thinking about absolute earnings growth over the long term for Allianz because the current business plan, there's a 5% to 7% target for EPS and Michael Huttner was referring within that, it's about 4% is the absolute earnings growth. We've got 4% in the conservative guidance you've kind of given for this year. So we seem to be anchoring still in the mid-single digits or even below that for absolute earnings growth. I'm kind of wondering about your optimism about how that could improve over time in a higher inflationary world. The nominal growth could be higher. On the other hand, IFRS 17 is not doing you any favors in terms of the discount rate unwind and the CSM unwind, which may be accounting but they're there. So what are you thinking about absolute earnings growth over time, please?

Oliver Bate
Chairman of the Management Board & CEO

It's an excellent question. Yes, we'll talk about it. I'll talk about it now and then a lot more in November.

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

Briefly 2 other questions, please. Slide B9, what are you thinking about the increase in the SCR for 2024, please? I know you said that Life should be very limited but presumably non-life is ongoing. So if you had EUR 1.1 billion last year increase in SCR, what are you thinking about for this year?

And then lastly, please, around Slide B19. Are there -- in terms of new business growth, again, you were just talking to Vinit but I'm not quite clear in my mind how you're thinking about new business growth for the Life business. Is that a 5% growth business, a 10% growth business? And are there any particular focus points where you think you've got big growth opportunities would big headwinds for Life new business in 2024?

Oliver Bate
Chairman of the Management Board & CEO

Very good. I'll do a very quick one on growth expectations, just to give you a bit of fantasy. I'll start with Property-Casualty. And it's a bit embarrassing on the one hand, and it's again the most beautiful room is the room for improvement. So I'll give you one. So let's take -- sales success of Allianz is actually very strong. When you look at growth that we have and productivity of our sales forces in most markets that matter, we are first quartile. When you look at net growth, however, after churn, we're actually only second quartile or at the cusp of being mediocre, let me put it the least.

What's the challenge? We have significantly more churn than we ought to have. If we were -- you just run your fantasy numbers, if you were as good in net growth as we were in gross growth, the growth that we have would significantly improve, OP growth will be more like 6% to 7% than 4$. Now that's easy said and not so easy done, but we're going to focus a lot more on that. Why Claire-Marie has said it because the level of profitability between 92% and 93% combined with a good investment income is so high. You're talking more 16% ROE, that's enough, given our cost of capital to focus on growing the franchise.

Now we know that business goes in cycle. At some point, commercial lines will go down. But by the way, reinsurance will get cheaper also again, so we need to manage that very carefully. Life & Health of CSM very simple, you need to add volume, right? So the distribution -- by the way, I don't think CSM is a bad. It's a very good thing because when you look, for example, for the German numbers, you will very quickly find out the dividend capacity actually stems not from IFRS but local GAAP. And the CSM numbers are very, very close to local GAAP and our ability to pay cash.

So if you want to understand how much cash comes out of life insurance, which has been a curse for our industry that we could never explain in the accounting terms, what does that have to do at all with cash, the new numbers are much better. But the answer is we really need to grow the volume. And we had a sort of a little bit lower growth than anticipated because of the strong rights and rates, and the banks being driven, by the way, also by the regulator to get deposits in given what has happened with U.S. banks. So there have been increase in crediting rate, which, by the way, means banking profits will go down now.

And we sort of have a delay in the catch-up. We have very modern products. So we need to grow, if you want to say so, the AUM at very strong margins. And by the way, there's something else hiding in terms of profit growth. We have a significant portion of our protection business that you don't see because we actually don't consolidate the health and protection business between P&C and Life. We're going to change that in the future to make it more visible because the protection business is growing very strongly as it is the health business, and that's -- and core for engine, which, by the way, deserves very different cost of capital and valuation we're going to show that.

And then Asset Management, we've discussed already, when you are operating at a fixed income operator in an environment that first goes for 20 years almost to 0 or negative in Germany and then suddenly jumps up 400 basis points, that is the bond managers nightmare as we normalize away from inverted yield curves, as you can expect both flows but more importantly, margins to significantly improved. So the Asset management Growth coming out of PIMCO needs to grow more than 6% to 7%. So you run the numbers. I'd rather grow the earnings and the cash out of the business than buying back shares.

In the meantime, everything applies, as we said, 75% is what we want to do at least. So just don't forget that. So -- and the rest will do in November.

The other questions, Claire-Marie?

Claire-Marie Thomas Coste-Lepoutre
CFO & Member of the Board of Management

Yes. So on the -- on your question regarding the SCR profile in 2024. So it -- I mean, the growth in SCR when it comes to the connection with the growth in the business is obviously linked within the P&C segment to the business mix. So I cannot really give you directly a number. What -- if you want to use something for a projection into 2024, you can clearly continue to plan with the fact that the Life business is self-funding. So you don't need to add capital for the Life side. And then for the P&C side, you can take as a proxy, the CSR increase that you can see on Page B9, as an anchoring point, I would say, on the P&C side. I think that would give you a good order of magnitude.

Then on the Life new business, what do we see as opportunities. I think it will -- in our outlook, we plan with a 5% growth in terms of new business on the Life side overall. It will also depend quite a bit in terms of how rate environment is going to develop itself given the position of the business against the banking product, let's put it this way. But we remain extremely confident, I would say, across the portfolio. If you look at what our operating entities have delivered this year, we see clearly continued opportunities on AZ Life side.

For sure, Italy has been performing really well also with this new product. So that's going to maintain itself. That's also really clear. And we see as well as I was mentioning that on the Leben side, we have been gaining market share in this environment. And so also that's going to support our developments going forward.

Last aspect that maybe you don't have entirely in mind is that for the Health we have and also in particular, for the German Health business, we are going to see over time also an uplift that is coming from the benefit obviously inflationary pricing that are going to reflect themselves into the top line of the Health business in Germany.

Oliver Schmidt
Head of Investor Relations

All right. Well, thank you very much. You have been our last caller. So this concludes the call for today. Before we leave, let me thank all of you for your very kind feedback today. And for many, many years of trusting and constructive cooperation. I can only say that it has been a great pleasure to work with you. And before I leave, I have 3 wishes, stay healthy. Keep your bi-recommendations for Allianz and be kind to my successor, Andrew. Thank you very much. Bye-bye.