S&P Global
Market Intelligence

Allianz SE XTRA:ALV

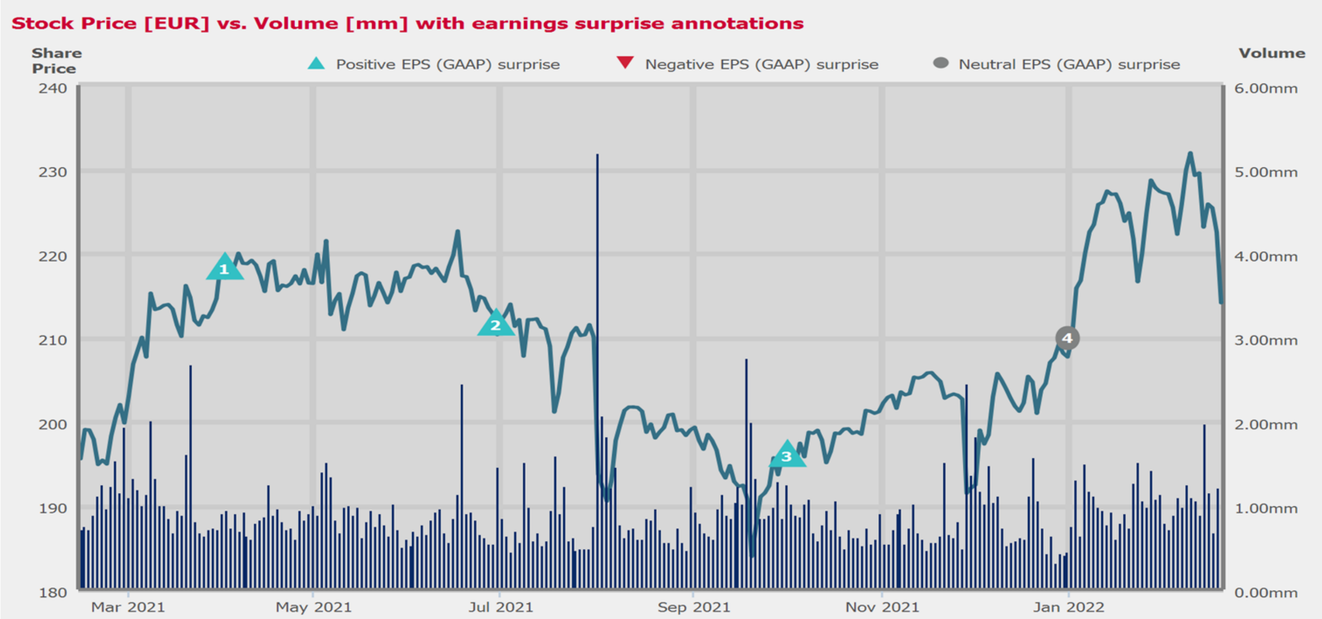
FY 2021 Earnings Call Transcripts

Friday, February 18, 2022 7:30 AM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2021-			-FQ1 2022-	-FY 2021-			-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS (GAAP)	5.53	(0.72)	NM	7.07	21.57	15.83	▼(26.61 %)	22.24
Revenue (mm)	37988.02	38400.00	▲1.08	NA	143510.70	148500.00	▲3.48	151984.55

Currency: EUR
Consensus as of Feb-18-2022 5:10 PM GMT



- EPS (GAAP) -

	CONSENSUS	ACTUAL	SURPRISE
FY 2021	21.57	15.83	▼(26.61 %)

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Call Participants

EXECUTIVES

Giulio Terzariol
CFO & Member of the Management Board

Lauren K. Day
Head of Group Communications & Reputation

Oliver Bäte
Chairman of the Management Board & CEO

ATTENDEES

Alexander Huebner;Reuters;Media

Ben Dyson;S&P Global Inc.;Media

Christian Schnell;Handelsblatt Media Group GmbH & Co KG;Media

Jean-Philippe Lacour;Agence France-Presse;Media

Olaf Storbeck;The Financial Times Ltd.;Media

Patricia Kowsmann;The Wall Street Journal;Media

Samuel Casey;Insurance Insider;Media

Unknown Attendee

Presentation

Lauren K. Day
Head of Group Communications & Reputation

[Foreign Language] I'm very pleased that you've taken the time this morning to join us for our annual media conference. Before we start, I just want to acknowledge quickly that we are going to be doing this conference exclusively in English. This is based on feedback we've received to become more inclusive of our international media and employee base.

I would like to introduce our Chief Executive Officer, Oliver Bäte; and our Chief Financial Officer, Giulio Terzariol, who will guide us through today's results and will be available for your questions afterwards. Thank you for being here, and we look forward to a great discussion with you. Oliver?

Oliver Bäte
Chairman of the Management Board & CEO

So mic is on. Good morning, ladies and gentlemen. Welcome to the results presentation for 2021. I'll expect it to be a lively debate today even though we cannot really welcome you physically in the room yet. I hope that changes, and we can go back to post corona environments of having actual people interaction.

What I would like to talk to you about today is 3 elements in the CEO assessment and outlook. That is what have we delivered in 2021, where are we with the transformation of Allianz that is ongoing, I think it's a theme that will not go away. And I'll talk to you about confidence. Allianz is going from strength to strength. And even when unfortunate things happen, we are able to balance them quickly and move towards the future, and that's what we're going to talk about.

Let me quickly review the highlights of last year. In an environment that was still massively influenced by the corona pandemic and that has really impacted people's lives and livelihoods and economic activity, Allianz has done a really great job in its operations.

We have been growing our revenues by 6% to EUR 149 billion. We've increased our operating profit by 25% to EUR 13.4 billion. We're raising our dividend per share by 13%, at least that's the proposal to the AGM supported by our Supervisory Board. And we have a very strong solvency ratio of 209%, despite the impact of the charge we've taken against the Structured Alpha proceedings that I'm going to talk about in a second.

Our net income is slightly down despite the massive provisions that we've taken. And our return on equity stood at 10.6%, also despite the charge. Before that, it would have been almost close to 15%. And because we are so strong in terms of capital generation power, in terms of resilience, we can do another share buyback already in the first quarter, and we are trying to do and decided to do EUR 1 billion and more is to come, if and when the time is ready.

Now more than a short-term picture in terms of importance is the longer-term trajectory. We've reached almost all of our targets in terms of performance and health of the company. And I'd like to reiterate what we've been saying since 2016. It's not just about the financial performance of the companies, ladies and gentlemen, but all what we call institutional health.

Here, we embody that into the Net Promoter Score, that's the willingness of our customers to recommend our products and service to their friends and family. And we've reached an all-time high relative to also our target ambition. 84% of our business is based in life or in P&C insurance, are exceeding market average in terms of customer satisfaction. So next stop is actually true loyalty leadership. We have almost 60% of our businesses that are loyalty leaders in their respective markets, and that's what we're going to target for all our business going forward.

The other element, as important, is the motivation of our workforce. We have highly loyal and highly productive colleagues, and particularly in the corona pandemic, we've seen the commitment of our people to the company. We've worked intensively to support them in many, many, many ways. And that is evidenced in the very strong feedback they've received.

So what we call the IMIX, that's the leadership index in Allianz. We've improved that by 7 points and are significantly above that quite aspirational targets that we had set for 2021. And that again despite corona. So both performance and health are very good.

But again, there is an issue that we have to take care of, and we have been trying to address that as quickly as possible. So our ROE at 10.6% reflects the charge of EUR 2.8 billion that we've taken for the fourth quarter in order to address the settlement with important investor groups in the United States around the Structured Alpha elements, which I'm going to address again later.

Now the evidence across performance for stakeholders has been plenty-fold. Loyalty leadership, I have addressed, employees have addressed. So I'd like to spend a few moments on other ESG topics. In particular, the fact that we have worked a lot to drive climate change-related issues, in particular on the asset side.

Our friend and colleague, Günther Thallinger, is the Chair of the UN-convened Net-Zero Asset Owner Alliance, by far the largest in terms of true commitments of asset owners to change towards a Net Zero environment. And I applaud the initiative not because we are chairing it, but because it's not just banking on 2015 being Net Zero, but we have very concrete targets for the next few years, starting with 2025, and we're spending a lot of energy and team commitment on that. So thanks to the colleagues.

But we've also done very operational things, vaccinating more than 25,000 employees and their families against COVID-19. And we've really, really taken ESG to the heart. We have a dedicated department at the group center now and a Supervisory Board Committee that deals with ESG issues, not as a nice to have, but bringing it into the core of the business.

By the way, beyond that, we are working on a lot of other elements of social support, particularly on diversity. Now 30% of all operating profit of Allianz comes from companies that are led by women, and that is very important to us. We don't want just representation and quotas, we want leadership.

And again, if you think about the last year, we've appointed a female CEO for Asia, for Allianz Life of America, for Allianz Lebensversicherungs on Germany, something that would have been unthinkable just a few years ago. So we are trying to make progress as much as we can, as fast as we can.

Now talking about progress, let's spend some time on the transformation that is ongoing. It is very important, ladies and gentlemen, to think about it very strategically. The purpose of Allianz that we've worked on with many thousand employees, so it's not an invention of the Board, of management, it's being carried by our people, is what we call we secure your future. In a world that is getting ever more fragile, ever more dangerous, Allianz is here to help people to fulfill their purpose and giving them security.

In order to achieve that, we have to be the trusted partners for protecting and growing our clients and people's most valuable assets. And by the way, that is not just houses and cars, it is also increasingly the health and the psychological well-being. In order to achieve that trust, we are focusing on 3 things.

The first thing is a very careful balance across stakeholders. We cannot create shareholder value without having highly satisfied clients and a highly motivated workforce, and paying our dues not just in terms of taxes to help society move forward. We've all seen in the corona pandemic leaving it to politics alone is not good enough.

Second, we have to deliver benchmark results, and we have to do that globally at scale. It's not good enough that some of our businesses are world-class. We have to play in businesses where we are the natural owner and are true leaders. Otherwise, we have to get out. Why is that? Because only leaders do achieve the returns that are required to actually invest into the future. And that is not just technology, it's our people and its society.

And last but certainly not least, and we see that now, there are always storms, floods and events that can be critical. There is no way that you can manage a company when nothing ever happens. So our resilience, our strength has to be so strong that people never doubt that we can live up to our promises. So these things are the ones that we are working upon.

Now how do we do that practically? If we think about value creation, simplistically said, there are 3 sources. It is growing the company, its client base, its revenues. It is expanding our margins where they are not yet best-in-class and very important for our financial institution to manage our capital efficiently.

For many, many decades, our industry was so profitable that we didn't have to worry about capital efficiency, we could only focus on growth and on margins. Actually, margins often came with it. Today, that's no more the case. We have to work on all 3 levers simultaneously.

And we have, as announced on the Capital Markets Day on December 3, 2021, refined our strategy to focus on getting the best out of Allianz's scale. We are working and have been working on simplifying the company, our products and service, particularly for our clients, but also on our structure. We now need to make sure that we do it globally and consistently.

The 5 levers that are most important in our strategy for the next few years are as follows. First, we have been and are still working on transforming our life and asset management business. If you look at them together, we are probably already one of the leading wealth managers in the world, and nobody ever has recognized it.

While we were founded in 1890 as a transport and P&C insurance company, by now, these segments are far larger in terms of profit and growth than the P&C business has been. So it's very important for us to now transform the business into something that's highly capital-efficient and has less volatility in terms of its capital consumption.

Second, at the core, we are the leading P&C insurer of the world, and we have to expand our leadership. As you've just seen with the acquisition that we are trying to implement in Greece, we have a string of pearl strategy. We refrain from large and very dangerous acquisitions, but have been very successful in the last few years to strengthen our market positions by targeted acquisitions in the markets that we operate. Think about the United Kingdom, we are now a market leader in many ways, particularly in customer satisfaction.

The third lever is boosting our growth around the world, driven by digital transformation, so-called platform businesses are being created and they offer a lot of growth opportunities for us. So we have been investing, particularly around claims, around health services, around travel in order to capture the growth of these platforms. And we need to boost it even further and take advantage of our scale.

Talking about advantage of our scale. We need to really make our global strength, something that you can see in the numbers. So for example, through the Allianz customer models, we've been working to create products that we can scale globally. We need to move beyond that now. It's not just about IT infrastructure and IT project. It is about unique and consistent client experiences wherever you are in touch with Allianz and whatever Allianz business you're working with.

The results of these efforts, by the way, can already be seen in the strength of our brand. We have been named the #1 brand by Interbrand again and again now. And also now on brand finance, we've been named the strongest brand in our industry, and we've jumped afar. But that's just a symptom and indicator. We need to have our clients experience seamless services globally, and we have still quite some way to go.

Last but not least, we need to reinforce capital productivity and resilience. A key element of that is to reduce the volatility exposure that we have, particularly on the capital side, but also make sure that for every risk we take, particularly tail-risk, we are properly compensated. So whether that is windstorms or floods or others, this is what we're here for. But we need to make sure that these risks are being taken in a calculated way and we're getting properly compensated for it.

So these are the 5 levers that we are pulling over the next 3 years in order to go to further strength and really take advantage of our global leadership positions. There are many levers for value creation that are standing behind that. I will not take the time away from discussion today to go through every little detail. This is fully consistent with what we have presented at the Capital Markets Day. So I don't want to repeat that.

This is just a reminder of the initiatives that we are taking along the 5 levers. Now one of the things that are most important to recognize that does not catch the eye of a lot of people in the public is how we have been transforming our asset management and our life businesses.

We have one of the world-leading franchises there now with more than EUR 670 billion in reserves, EUR 2.6 trillion in assets under management and more than EUR 800 billion of proprietary assets that we are managing on behalf of our policyholders. And what we are seeing is if you look into modern life insurance products, they look more and more like sophisticated asset management products.

So Allianz, as probably the only remaining insurer in the world that has been able to build a world-class asset management franchise, has the advantage for our customers to create integrated products that give them the best of both worlds. Higher returns, but the proper protection that's attached with it.

And we can absorb all of the threats that you saw, particularly from ultra low rates because we have unique assets to so-called alternative assets that stabilize returns for our policyholders and give the benefits also to shareholders. Why?

Because we can capture margin both in the Life business and the asset management business at the same time because we are delivering superior value to our clients in the first place that then we can share in for our shareholders.

To give you a practical example, our risk-adjusted returns that we achieve on the investment side for EUR 800 billion insurance reserves, about 40 to 50 basis points higher every year than our competitors can do it. And that is because we have with PIMCO and AGI some of the best asset management talent in the world in-house. And that, over time, is leading to higher net inflows, stable assets and much better risk-adjusted returns as we are growing out of old guaranteed life insurance reserves very quickly, as we explained at the Capital Markets Day.

By the way, this year, ladies and gentlemen, is the year where our new business in life will not absorb any more net capital. By and large, the new business that we are generating is self-financing. So we're going to set capital free over time because of the very strong new business value that we are generating.

We had a very important transaction at the end of last year, and we closed at December 30, and thank you to all of my colleagues that have worked around the clock to make that happen. In order to transform a highly capital-intensive business, Allianz Life of America was, in fact, the business in Allianz that in terms of absolute terms of money had the highest invested capital and released EUR 3.6 billion in capital with this one transaction, improved the ROE depending on how you run the numbers, 5 to 6 percentage points at least to 18%, that is what top asset managers are able to achieve.

And despite a small reduction in income at AZ Life, we can balance that with additional income we're going to generate at PIMCO. And the solvency ratio of the group improved by 9%. And that's, by the way, evidenced in the results that we saw. We've been working on it for a long, long time. So we are very proud of the partnership that we were able to create with Sixth Street and Talcott Resolution in order to make this thing happen.

Now going forward, we intend to use capital as intelligently as we've been demonstrating with this another transaction. As you may remember, we also last year did the first-ever reinsurance transaction out of Switzerland into Bermuda, highly successful and underway for quite a number of years. And again, it shows that we are continuously working to make this business more capital efficient and less volatile.

By the way, tail-risk management remains at the top of the agenda. Mr. Taleb says, the very famous guy with The Black Swan says, diversification is the thing that never shows up when you really need it. And it's -- there's some truth to it. So we have to really think not just about better modeling of risks in our risk model system, but make the front line every day aware that we are exposing our policyholders and our shareholders' money, and we need to really think it through across the entire value chain.

As we've learned with COVID, it's very important to be very clear with society and customers what exactly are we covering for. It's not good if you need a PhD in law to explain a policy wording. We have been able to carefully think about our cyber exposure, and we need to manage that further. We have been massively improving our commercial lines performance and risk appetite and AGC&S is back on track. We have to work on the in-force, as we've just discussed, particularly on the life side, but also on NatCat accumulation, we have again 2 storms coming, is something that we need to continuously monitor and improve.

In 2021, we were able to prove that despite very heavy NatCat losses on the gross side, the net losses were something that was very much in line with our risk appetite, and we need to continue to do so and again, probably also charge for the risk that we are taking. Taking NatCat flood risk is all okay as long as the returns are proper.

And on operations and IT, there's lots of things that we need to manage, particularly cyber exposure. But there are many other events beyond the pandemic to take care of. In particular, human behavior is something that we really need to look at. And the lesson learned here is we need to be only in businesses that we really fully understand and that we can really control. Everything else we should stop doing.

Now let's talk about the outlook. And I say it with full confidence, and I'm very proud of the work that our 150,000 colleagues, about 150,000 colleagues last year, have delivered. Record operating earnings, record top line, strong growth in an environment that's not really growing very much and a lot of progress on transformation. And that's something to be very proud about.

Therefore, we have decided to also give a confident outlook that is above what people were normally expecting. This page gives you a little bit of a 10-year look, and you see the strong improvement in operating profitability that we've been able to achieve in 2021. And based on that, our outlook is EUR 13.4 billion as the midpoint, plus/minus EUR 1 billion. Again, the environment is quite, quite fragile. And by 2024, we want to be north of EUR 14.5 billion in terms of operating profit and grow EPS between 5% and 7%.

And we have all the levers in-house to deliver on this outcome, bar obviously, lots of very risky events on the outside. We've also changed, therefore, our dividend policy to make sure that we not just have a 50% payout minimum, the ratchet we had before, but we want to grow dividend 5% from year to-year. That is a very strong commitment that people need to really understand what it means for them because it gives them security not just on the base, but also on the growth of the base.

And beyond that, I repeat the commitment that we made in 2016. If we have excess capital that we not invest profitably into the business, either into organic or inorganic growth, we will not let it sit idle. We will also transfer it back to our shareholders because it's their money, not ours that we're investing.

With that, I'd like to thank you very much for listening. I'm looking forward to your questions for today, and I hand over to Giulio.

Giulio Terzariol
CFO & Member of the Management Board

Thank you, Oliver, and good morning to everybody. And as Oliver said before, the underlying performance of Allianz Group in 2021 was very strong. When we look at our numbers for the 12 months, we see a very nice growth rate of 6%, and this is driven by all segments, not only by Life/Health and Asset Management, but also by the Property-Casualty segment.

If you remember, the first quarter, the growth rate was negative. And now you can see that we picked up a lot of momentum and we have a growth rate for the 12 months of 4%. The operating profit is 25% higher compared to the level of 2020. Clearly, in 2020, we had also the impact from COVID. But even if we adjust the numbers for the COVID impact, we have a double-digit growth in operating profit and all segments have contributed to this performance.

In Property-Casualty, we achieved an operating profit of EUR 5.7 billion, which is higher than the outlook of EUR 5.6 billion. Here, you can see that the combined ratio was higher than our 93% target, but we need to recognize that the NatCat load was definitely higher than the normal expectation. On the other side, the results out of the investment was more positive compared to our plan and this explains why despite a higher combined ratio because of the NatCat, we were able to outperform our outlook.

In the Life/Health side, we have very strong operating profit and also a very good evolution of the new business margin, new business value. So very good results on the life side. And in Asset Management, we achieved EUR 3.5 billion of operating profit, so a record level of operating profit for our Asset Management operation. And as you see also, the flows have been very positive. And also, we were able to reduce substantially the cost-income ratio.

When we look at the net income, you can see here clearly the impact of EUR 2.8 billion coming from the provision for the Structured Alpha matter. This said, even with this impact, we have been able to achieve an ROE which is in a double-digit level. So this is a sign of this strength clearly of our overall franchise. So overall, very strong underlying performance in 2021.

And when we take a look at the numbers for the fourth quarter, you can see that the operating performance in Q4 was very strong with EUR 3.5 billion of operating profit. Again, all segments have contributed to this very good numbers. And then clearly, the shareholder net income has been impacted by the provision for Structured Alpha. But again, when you look at the underlying performance, extremely strong in the fourth quarter and we finished the fourth quarter with the highest quarterly operating profit compared to what we had in the course of 2021.

The solvency ratio, overall, 209% of solvency ratio. This after taking into account for a 9 percentage point charge due to Structured Alpha. So you can see a very strong evolution of our solvency ratio, which is stronger compared to what we had at the beginning of the year. When we then adjust pro forma for the buyback that we announced today of EUR 1 billion, then we get to a solvency ratio of 206%, which is clearly a very strong solvency ratio.

And here I can also talk about what has driven this good performance from a capital point of view. First of all, as you see, the capital generation has been positive at plus 29 percentage points. This number is before dividend and before taxes. When you adjust for dividend and taxes, still a very strong capital generation of about 11 percentage points. And that's very important because, clearly, that's the capital generation that we are going to carry also in the future. And as Oliver was saying before, we are in a situation where basically, the new business of -- in our operation is self-funded. So that's an extremely positive situation as we look forward.

The capital markets have been benign. So overall, there was a positive impact coming from the capital market development. And then when we look at the capital management and management action, here, we see a minus 14 percentage point impact. This is basically the dividend that we are going to pay to our shareholders and also the buyback that we did in August, in the period after August. This explains basically the minus 14 percentage points. Otherwise, there are other elements which are kind of relevant in this number, which offset each other.

One is we got about 11 percentage points of improvement coming from our back-book transaction. So you can see there was active capital management and especially the transaction the US has contributed positively to this number, but we had also other transaction in Europe.

And then we have been capable to recycle, if you want, this 11 percentage point improvement of the solvency ratio into acquisition. Overall, we did acquisition in Poland, in Italy and also in Australia. This had an impact of 9 percentage points on our solvency ratio, but you can see how we are moving the portfolio, and we are capable to fund those acquisitions through rebalancing.

And then on the position of tax/other. First, you have the impact of taxes on the one side. And then there we had a 9 percentage point of impact due to the Structured Alpha situation. But overall, with 209%, or 206% adjusted for the pro forma for the buyback, very good level of solvency ratio, and also a lot of activity, both in terms of capital efficiency and in terms of capital redeployment.

This is a new slide that I really like to show you because as Oliver said before, we are very committed to the ESG topics. These are the 3 KPIs for the issues or topics that we gave ourself as main targets. Overall, you can see there is a good reduction of the carbon footprint of proprietary investments and also for the carbon footprint of operation for the per employee. Clearly, these numbers are also benefiting from the COVID situation. So from that point of view, clearly, there was some progress, But clearly, we need to adjust for that. But you can definitely see that we are well on track to achieve our targets.

And then on the renewable electricity, you can see that we are at a level of 77%. Our target is to go from above 50% to 100% by 2023. So you can see that we are halfway on achieving our target for 2023. So overall strong performance also on the ESG topic, so we try really to combine basically all the stakeholders from the operating profit being very strong to the solvency ratio being also very strong and also delivering on our ESG commitments.

And now as always, we go into the numbers by segment. And we start with the growth rates in our P&C operations. And as you see, we had a good growth rate of 4%. As I was saying before, we've started the year with a negative growth rate. So you can see there was a strong recovery. And if you look at the number for Q4, we had a growth rate of double digits. So definitely a good level of momentum.

When we look at the development by entities, you can see that the majority of the entities have been in a growth mode. We have a few exceptions. Usually, like in the United Kingdom or France or Spain, usually, this is due to a very competitive environment in motor and/or also to pruning that we are doing, especially in the commercial business.

I think what is very positive then is the development in Allianz Partners. This gives you an idea about how somehow the situation is progressively stabilizing. Last year was very -- 2020 was very tough for the travel business. But as you see, now the situation is now back to normal. But in 2021, there was definitely a normalization. So overall, a good growth rate for the segment of 4%.

And then when we look forward at the price momentum, I will say that across the portfolio is stable. So which means that at the moment, we see rate increases, which are keeping pace with the inflation. So that's also important. We cannot predict what inflation is going to do down the road. But for the time being, we see that we're getting the rate increases that we think are needed to match the current level of inflation that we are seeing.

Now going to the operating profit. Overall, EUR 1.4 billion of improvement in operating profit in 2021 versus 2020. Of this EUR 1.4 billion of improvement, EUR 1.1 billion is due to the fact that we didn't have the repeat of the COVID impact of 2020. But still even adjusting for that, we have an increase in operating profit of EUR 300 million, which is about 5% increase compared to the adjusted level.

And when you look at the combined ratio, you can see an improvement of 2.5 percentage points. Part of the improvement is due to this COVID not repeating in 2021 compared to what happened in 2020. On the other side, we see that the amount of natural catastrophe was significantly higher compared to the level that we had in 2020. And then you can see also there is a normalization of the run-off to the level that we would broadly expect.

And then there is also an underlying improvement of about 30 basis points. And of this 30 basis points, 1/3 is coming from the improvement in the expense ratio. So overall, I will say solid performance on the technical results and another, even if small, but another improvement in the expense ratio.

And when you look at the 93.8%, you just need to adjust the 3.1 percentage point of NatCat loss to what the normal level will be, which is more around 2%. And there, you can see that our combined ratio was definitely adjusted for that in line with the 93% target that we have been giving ourselves.

When we look then at the performance by entities overall, I will say that you can see really a good performance. For example, in Germany, a combined ratio of 93.5%, despite the amount of NatCat that we had during the year, is a very good performance. Also in the United Kingdom, France, Italy, we are seeing very good numbers. The development in Eastern Europe is always very, very strong. We have some work to do in Latin America, but that's clearly an opportunity also for the future.

And then I'd like to spend a few words on AGC&S because that's been clearly a cause of concern in the past. As you see, we have achieved 97.5% of combined ratio. The target for 2021 was a combined ratio of 98%. So I will say we have been there, even slightly overachieving that. And I can also tell you that the underlying performance of AGC&S is even stronger than the 97.5% that we are showing here. So we are very pleased with the progress of AGC&S, and we are looking with confidence on the delivery of AGC&S in this year and the next years.

And then Allianz Partners has also an amazing performance considering the environment. So I was talking yesterday to Oliver, say I couldn't believe that Allianz Partners could achieve that level of profit, and they've been able to achieve that level of profit also with a lot of quality. So kudos also to our colleagues in Allianz Partners.

And also clearly very strong performance of Euler Hermes. The economy has been very stable, as you see. And from that point of view, we had also very strong results in Euler Hermes. So overall, a strong set of results. And I think this is also clearly a good starting point for the conversation that we're going to have in the course of 2022.

Now on the investment results, as you see, which might be a little bit surprising, the investment result is not down. This time it's up. And the point here is that, yes, there is still pressure on the investment results coming from the fixed income side, although this pressure is slowly, slowly becoming less.

But on the other side, the performance of our equity portfolio has been very, very strong. I'm speaking here about dividend that we get out of our public and private equity, so that performance has been stronger compared to what we saw in 2020. And this explains why the investment result is up.

So when you put all together, the underlying performance on the property, on the technical side, there's some clearly higher NatCat, but on the other side, better than expected investment results. We have been able to achieve EUR 5.7 billion of operating profit in our Property-Casualty segment, and that's ahead of the outlook that we set for the year 2021 of EUR 5.6 billion. So that's good news overall.

Now we turn to something that makes me particularly pleased, which is the development in the life business. As you know, we had to do a lot of product changes. And one of the questions we were getting is are you capable to do all these product changes and still keep production going.

And now when you see at the growth of our production, you can see a number which is close to 30%. Clearly, here, we had also a few one-offs. But even if you adjust for the one-offs, we would see there double-digit growth in production. So that's a very important element because we changed the product, but there is a strong demand for our products.

And when you look at the new business margin has improved compared to the already good level that we had in 2020. So good story on the margin, on moving the mix in the right direction and also on the level of production that we have been able to achieve. And also, what is good, all our subsidiaries have embraced in this journey of a product transformation. So there is no misunderstanding of what the direction is across all our entities.

And now coming to the operating profit. That has been particularly strong in 2021. You can see an improvement of EUR 650 million, and this is driven basically by all key drivers, like loading and fees, investment margin and also the technical margin. On the expenses, you see a negative amount, but you need technically always to offset the expenses with the impact of change in tax. So that position is basically pretty much stable.

So bottom line is strong improvement in operating profit, and this improvement has been driven by all key drivers. And when you look at the operating profit by line, you can see that all lines have contributed positively to the development of operating profit. I have also to say that here, we benefited out of the low volatility in 2021. So from that point of view, the EUR 5 billion is not necessarily the starting point of how we think about a normalized level of performance in the life side.

But we have also definitely an expectation that we are performing at a better level compared to the EUR 4.4 billion that we had as an outlook for the life segment for 2021. So strong numbers in total. And here, as always, we show the picture by entities. And on the new business margin, you see a lot of stability. On the operating profit, you can see that the German life company is contributing a very stable and solid EUR 1.2 billion of operating profit.

Here, you see also the significant contribution coming from the United States. In 2020, the numbers of Allianz Life were a little bit softer because of the high volatility in the first quarter 2020. And this year, I would say the numbers of Allianz Life has been exceptionally strong because the volatility has been really low. So this explains the swing in profitability of Allianz Life.

Then another company I like to highlight is my home country, EUR 450 million operating profit with a growth of 30%, this is really a very nice development that we had in Italy over the last years. Italy has been also one of the first countries to embrace this transformation to capital-light products and unit-linked products. And you can see that this journey that the company started a few years ago is now paying off. So good results in general and also a few OEs really outperforming their plan and the expectation.

And now if we go to the investment margin. Here, there is a very important message. First of all, you see that the current yield has gone up by about 10 basis points. And that's because in 2020, clearly, there was some lower results due to lower dividend on our equity portfolio, you see this year, there is a normalization of it.

But the most important point, as you see, the guarantees are going down by 10 basis points. And we expect clearly this trend to continue as we are making -- we'll be making changes and lower the guarantee even further in the course of 2021. So that's a very good development as we see that the drop in the minimum guarantee might, especially if rates are going -- interest rates are going up, might exceed what we might see as a pressure on the current year.

So overall, very, very strong delivery on this KPI and also this is positioning us well for the future. And now coming to Asset Management. As Oliver said before, we are one of the largest asset managers in the world with EUR 2.6 trillion of assets under management, and that's also not to be forgotten, we have about EUR 600 billion of proprietary assets that our asset managers are managing for us. And clearly, that's a strong opportunity where we can create also good synergies with our asset managers.

And then on the third-party assets under management, you can see number 2, about EUR 2 trillion with a growth rate of 15%. And when you see all asset classes and regions have contributed to this development. So that's inevitably nice when you see that not just a strategy or a region is moving in the right direction, but when you see this across different regions and different asset classes, that's a very strong sign of the quality of the overall franchise.

And we see a similar picture when we look at the third-party net inflows. Overall, we had EUR 110 billion of inflows in 2021. And we are kind of used to see EUR 55 billion, EUR 60 billion plus of inflows from PIMCO. We are not being used to see EUR 40 billion plus inflows from AGI. So that's a really great performance from AGI. I think it is a record level of inflows.

And we need to consider that AGI has been capable to deliver this kind of performance despite having done a restructuring in 2020. So every time you do a restructuring, there is anxiety about what could be the implication to the franchise. And these numbers are pretty clear that the franchise of AGI has been very strong.

And when you look at the composition of the third-party net flows by asset classes and regions, you can see also here a very good spread across the different dimensions. So very good picture with a good level of diversification.

And clearly, when the assets under management are going up, revenue are also going up. You can see double-digit growth in 20% growth -- double-digit growth in revenue overall. You see 20% of internal growth at AGI and 14% at PIMCO. What we also see here the fee margin is stable. That's also an important indicator. And then also in PIMCO, we had a good level of performance fees in -- especially in the fourth quarter. So definitely, that's been an additional positive to our operating profit for 2021.

And since we are speaking about operating profit, you can see a growth of over 20% in operating profit. Also when we adjust for the so-called volatile items, which is like the performance fees, which might come to a higher or lower level, we still see about 20% growth. So very strong performance of our asset managers.

And also, I think what is really noteworthy is the development of the cost/income ratio of AGI because we had a very strong improvement. We are clearly aware that in general, the Asset Management industry had a good year in 2021, but we have a strong reason to believe that especially AGI has outperformed most of the industry. So very, very strong underlying development at PIMCO and this year, particularly at AGI.

Corporate is more or less in line with our expectations. So we'll not spend additional time on this line of business and now we come to the net income. Here, I would say there are 2 elements for consideration. One is, as you see, the realized gains and losses are higher than what we will normally expect. Here, we have also the impact of the transaction that we did in the United States that has contributed on that line item about EUR 600 million of income, then there were clearly some offsetting items below.

But just to explain that item, 1/3 of the EUR 1.8 billion is explained by the transaction in the United States. And then as you see, we have the position other. That's where we have also the pretax charge of our litigation in the U.S. And as we said before, the net income impact coming out of Alpha matter in the U.S. is EUR 2.8 billion. And again, I want to reiterate, clearly, we are not pleased with that. But still, we're capable to do about 11% ROE. And this is a sign of the strength of our underlying performance.

And with that, I'd like to come maybe to what is the most interesting session for you guys, which is the outlook for 2022. And as Oliver has already said, we have an outlook of EUR 13.4 billion for this year. As you know, you might have understood so far, we have a little bit of a tradition also to set the outlook at the level of the preceding period. So we keep with this tradition, which is usually also has been so far also very good for us.

And when we look at the assumption is for P&C, EUR 6 billion operating profit. Here, we expect basically to go to a combined ratio of 93%. That's where we think the underlying combined ratio is. So this explains basically the increase compared to the level that we have in 2021. We are still kind of conservative on the assumption for investment income because we want to see how the situation evolves. But fundamentally, the main KPI behind the EUR 6 billion is 93% combined ratio.

For the life business, we have EUR 4.8 billion of operating profit. As I was saying before, the performance in 2021 has been a little bit elevated because of the low volatility in the United States. So we are kind of adjusting for that. So we are starting with a EUR 4.8 billion as working assumption.

And then in asset management also, we do some normalization for the performance fees and then we will see how the environment is going to develop in the course of 2022. So overall, EUR 13.4 billion of operating profit, and we have a healthy degree of confidence that we will achieve this target. That's a good starting point for the conversation that we are going to have in the course of 2022.

So to summarize, strong underlying performance. That's very important because that's the foundation of all the things we do. The capitalization is very strong. That's also important. We are in a position of strength from a capital point of view.

Oliver was talking before about the health indicators. They are also very strong. And as we speak about health indicator, which is a lot to do also with our people, I clearly want to thank again our employees for their great performance in 2021. And with that, I will be done with my presentation.

Question and Answer

Lauren K. Day
Head of Group Communications & Reputation

Thank you, Giulio. Thank you very much. So moving now to the Q&A session. [Operator Instructions] Now because we know you will have questions about our provision and the Structured Alpha situation, we want to address this in our Q&A at the outset and upfront.

Oliver will read some remarks that we have prepared for you, which we hope will be clear and helpful. But after that, we will not take further questions on the topics for reasons I'm sure you understand and will respect. However, there is a lot going on in the world and in our business. So we will certainly still have a lot to talk about.

So with that, Oliver?

Oliver Bäte
Chairman of the Management Board & CEO

Yes. Thank you, Lauren. Ladies and gentlemen, as regards to Structured Alpha and the Structured Alpha funds at AGI, I'd like to inform you that the ongoing governmental and litigation measures remain at a sensitive stage. So as a result, beyond my remarks here, I will not, and unfortunately, Allianz Group in general, cannot comment further on Structured Alpha neither during today's presentation or in response from questions that you may have either today or over the subsequent days or months. And I thank you for your understanding because we are under very strict rules in the United States.

Now as you know, Allianz SE has announced that it has taken a substantial provision in anticipation of settlements with investors in the Structured Alpha funds and in light of the discussions with U.S. authorities. We closed these funds, as you know, following losses suffered in the wake of market disruption in March of 2020 and at the start of the corona pandemic.

Now we announced this provision last evening in anticipation of settlements with major investors in the Structured Alpha funds, which we actually finalized this morning, really finalized. And because our negotiations with the U.S. governmental authorities are also proceeding, we have determined that certain costs related to Structured Alpha now are calculable and, therefore, a provision is appropriate.

We believe that these settlements with investors represent a substantial majority of our Structured Alpha litigation exposure, that's very important, and will provide a fair compensation to those investors for their losses, which we do regret. The estimated net impact of the provision we have taken will reduce the group's 2021 net income, as you have seen, by EUR 2.8 billion.

This morning, there were some confusion around numbers. The EUR 3.7 billion is the gross number, the net income effect is actually EUR 2.8 billion. This provision and the settlements this morning in the U.S. are an important step towards resolution. But it is important to note that we remain in discussion with both the DOJ and the SEC and some remaining investors. Accordingly, we expect that Allianz will incur some additional expenses before these matters are finally resolved, and we hope to resolve them as quickly as possible.

By the way, it's just been 8 months since the DOJ started its investigation in May last year and until now. So people ask sort of is this fast? From what we know, it's one of the fastest movements and that we are really interested to settle things quickly. However, the U.S. government decides when and how these things are being settled, and we're working with them very intensively.

So at this time, we cannot quantify the total impact of the ongoing DOJ and SEC investigations or some of the remaining litigation. But as soon as the proceedings progress further and a financial impact can be determined, as said, for this one, we will assess the need for a further provision. We hope those investigations and remaining litigation will be resolved in a timely manner. But again, at this point, no, we cannot predict a settlement date or its precise terms.

I want to emphasize again as all along, we have been cooperating fully with the DOJ and the SEC investigations from the very beginning, including providing substantial factual information to the DOJ and SEC about the results of our own forensic reviews and other reviews of the Structured Alpha matter. As part of the conclusion of those investigations, for those that are not familiar with the U.S. specifics, we expect that the DOJ and the SEC will make their findings public. On our side, we cannot disclose any findings or lessons learned from our own reviews until the investigations of the government authorities are concluded on their side.

I want to be clear that we are continuing to evaluate thoroughly the Structured Alpha matter in both detail and in its context, and we are determined, as always, to learn from this matter and will continue to strengthen our culture as our local and global processes to prevent this event from happening ever again, I hope.

I want to also address the impact of this matter on senior management because there has been questions around that. Since at the end of the day, it's also our institutional responsibility, not just at AGI U.S. As we've always said previously, management remuneration is -- at Allianz is deliberately designed to align the interest of management and our shareholders. As a result, any loss experienced to our shareholders as this one are felt directly in the compensation of Board members and as our gains if we create them in terms of positive FX.

I can assure you in advance that despite the record of operational performance of the company, which was stunning actually in 2021, management will carry our fair share of the burden and there will be a significant impact on our compensation for each and every Board member, by the way, as a result of the provision and its impact on net income. Our annual report that exemplifies that will be published on March 4.

With these actions, we want to demonstrate we are taking this matter extremely seriously and we regret really the losses, particularly suffered by Structured Alpha investors. One of the strongest aspects of Allianz's culture that I experienced now over a long period of time that we are able to learn from these events. So we are going to make sure and take every opportunity that we learn from this institution, become smarter, we become stronger and we become a better company as a result.

So thank you for listening, and that's all I and we can say about Structured Alpha today. And with that, I hand back to Lauren.

Lauren K. Day
Head of Group Communications & Reputation

Thanks very much, Oliver. Our first question on the telephone is Stefan Nicola from Bloomberg. We see your avatar, can't hear you. Okay. Next question will be Olaf Storbeck from the Financial Times.

Olaf Storbeck;The Financial Times Ltd.;Media

Can you hear me?

Lauren K. Day
Head of Group Communications & Reputation

We can hear you. Hi, Olaf.

Olaf Storbeck;The Financial Times Ltd.;Media

I'm afraid I do have a couple of questions on the Structured Alpha, but this relates to the impact on Allianz result of the provision. So I hope you will be able to explain that.

As Oliver already mentioned, this discrepancy between the EUR 3.7 billion provision and the EUR 2.8 billion impact on net profit. Could you just explain the gap? Is this just the tax shield? I mean, it looks like it. But on the other hand, I think the tax impact is -- the implied tax rate on the provision would be 24%, while I think on the overall group level, it's 25%. So why is that gap?

And my second question would be, when do you expect the cash outflow to happen? And how will you fund it? Because, I mean, EUR 3.7 billion, plus the EUR 1 billion of share buyback, it's a relatively significant outflow. And if this kind of happens quickly, will you have net debt increase? Or how will you deal with that?

Giulio Terzariol
CFO & Member of the Management Board

I can pick up this question. So on the tax rate, yes, that's the only difference between the EUR 3.7 billion and the EUR 2.8 billion. And the tax rate is 24%. So you need to apply the tax rate, which is relevant for the legislation where the settlement is taking place. So that's basically the reason why it's 24% and it is not the 25% that you see for the group.

Otherwise, your other question was about when the cash outflow is going to be. A portion of it is going to be relatively soon. And from a liquidity point of view, I always say that we have ample liquidity in Allianz Group. So from that point of view, that's not a concern.

Olaf Storbeck;The Financial Times Ltd.;Media

Okay.

Oliver Bäte
Chairman of the Management Board & CEO

We expected -- yes, that's very clear. I mean ample is a conservative way to put it.

Olaf Storbeck;The Financial Times Ltd.;Media

All right. Could you also maybe, if I may, can you give us some idea of how much your bonuses will be cut?

Oliver Bäte
Chairman of the Management Board & CEO

No, we can't. But it's -- you will find out on March 4.

Lauren K. Day
Head of Group Communications & Reputation

Thanks, Olaf. Next question is Tom Sims from Reuters.

Oliver Bäte
Chairman of the Management Board & CEO

Tom, you're on mute somehow.

Lauren K. Day
Head of Group Communications & Reputation

Tom, if you want, just text me that question, and we'll read it aloud for you because people are waiting in the queue. Next question is from Alexander Huebner from Reuters.

Alexander Huebner;Reuters;Media

Can you hear me now?

Oliver Bäte
Chairman of the Management Board & CEO

Yes.

Alexander Huebner;Reuters;Media

Very well. Hello. Can you hear me? Very well. Okay. I've got 2 questions. The first one is we have read that you are planning some changes at Euler Hermes, renaming the business and change its strategy a bit. Can you elaborate a bit on that, please?

And the second question is on your strategic proposal that life and asset management will grow together in the future. How far can this go? Will we in, let's say, a couple of years see one large combined life and asset management part of Allianz? Or -- yes, that's, in fact, the question.

Oliver Bäte
Chairman of the Management Board & CEO

Yes. Let me address the question. Let me start with the second one, you asked about where is this going? Actually, we look at it from the customer side, Alex, that is increasingly the offers are integrating. So regardless how we really are organized internally, most of the projects are converging.

You already see that in Corporate, that often driven by regulation, not really by the product features and the risk return profiles because in some countries, pensions are a favorite tax-wise, in others, it is CTAs. This is also going into the retail markets. And what we're doing, we are designing the products in an integrated way to offer the best of both worlds and bring them in. And by the way, also health insurance increasingly plays a role as people have found out through corona, that it's really important to think about that.

So whether that leads to organizational changes is a second matter, what we are driving is really to try to create more value because we can optimize both the life insurance product design and the asset management supply that is unique to Allianz, particularly in a world where access to private markets, not public markets, is making all the difference in terms of returns for our policyholders and for our asset management clients. This is where the convergence actually is most important.

But it's very important to recognize when people look at the profit pools to really think about them together, because what we are actually offering is 2 types of products to clients, but we are basically creating returns for them in both sides as customers, but also for our shareholders, we are profiting twice from having the assets of our clients in-house.

Now on Euler, we will announce that in due time. Yes, there are changes coming. I don't want to talk about this at this point in time, we'll do it in due course through Euler. What we're trying to do is make sure that the world understands Euler Hermes is a core part of what we do in Allianz, particularly for SME clients.

And it's a business we're extremely proud of. We are growing it very strongly, and there is lots of opportunities globally for this business to do, go from strength to strength. It's a bit more volatile than other businesses. We need to manage the risk very carefully, but it's a fantastic business.

Lauren K. Day
Head of Group Communications & Reputation

Our next question is from Jean-Philippe Lacour from AFP.

Jean-Philippe Lacour;Agence France-Presse;Media

Yes, [Foreign Language]. Can you hear me? I hear myself in echo.

Lauren K. Day
Head of Group Communications & Reputation

We hear you.

Jean-Philippe Lacour;Agence France-Presse;Media

Yes. But I hear an echo when I -- okay. Can you still hear me? Okay. NatCat first. So there were some disasters in Europe, including the floods in Germany, which were really expensive for the sector. But what was the impact in the United States? Last year, there were many storms, which were very expensive as well for the sector. However, I thought the winter storm, which has not finished hurting you in the U.S., I don't see any U.S.A. line in your P&C tables. So please enlighten me on this topic.

Second question on COVID. Prior year, you had a EUR 1.3 billion charge on COVID on the group level. Can you maybe give a figure what was for 2021, which should have fallen sharply as we know, and maybe a forecast for 2022 quantitatively -- qualitatively? Sorry.

And finally, China, which we haven't heard a word [Technical Difficulty] come out on China and Allianz [Technical Difficulty] I mean here the Olympics Games, a key sponsor for this games. And those in China are now ending. [Technical Difficulty] commitment that has been strong from several stakeholders criticizing that you are supporting a dictatorship, so to say.

And my question is, have you significantly reduced your sponsorship budget for the games as it was alleged before the games? And on a larger base, what do you say beyond that about our ambitions in China? So on two-parts question, maybe thank you for a lively answer rather than ready-state -- ready-made statements. Okay, that was it.

Oliver Bäte
Chairman of the Management Board & CEO

Thank you, Jean-Philippe, and [Foreign Language]. It is very interesting questions. I would like to hit the question and starting right on the Olympic movements, and then Giulio will take -- address the issues on NatCat.

It's very important to clarify a few things. So for example, we do not sponsor Olympic Games in China, okay? That may come as a surprise. We do sponsor the athletes that are participating in the Olympic Games. It's a totally different thing. So let me repeat. We are not sponsoring any city unless we have that specifically.

For example, in Italy, we're going to do that for the games coming up. But we did not sponsor a specific sort of host. What we are supporting is thousands of Olympic sports, men and women that are preparing for 4 years to the most important sports competition in the world. And that's something we are very proud of.

And we've been supporting the Olympic movement even as an unofficial sponsor for a long time, by the way, starting with the Paralympics, something that's very dear to my personal heart because that's something where handicapped, people, people with disability are really trying to show their best every world. And I think that's been confused, particularly in the core of Europe.

So we have not spent any money to or given any money to the Chinese government for holding the games, and that's very important. And that's -- whether they are in Beijing or whether they're in Madrid or in London or Paris in the future and so on, wherever they are hosted. And I think that's important. And we keep on supporting the Olympic movements because we believe it's one of the few things that unites the world regardless of what's going on wherever.

Now the question will be, do we not take notice of criticism that other people have of countries and governments. And of course, we do, and we are in dialogue also with local governments on this, but we don't do it publicly. We are not elected officials that have to represent the people, and we have an opinion, and we give that feedback very clearly, but we do it privately. And I think that's the best way for us to do it in a proper way.

And in terms of China, we have many, many ideas on how to grow in China. Our business there today is not very big, but we've created a lot of requirements to help them. For example, China is trying to set up a proper pension and private health care system, which will be very important to support the 1.4 billion people as their society is aging very fast. And we have lots of experience with operating in mature society. So we're trying to bring the best of our knowledge to help the society there, and I think that's also okay.

Now with that, I hand over to Giulio.

Giulio Terzariol
CFO & Member of the Management Board

So if I understand your question, your question was what is the impact of the winter storm in the U.S. in our NatCat. So overall, our NatCat load was EUR 1.8 billion, and 10% of it is coming from the winter storm in Texas. So about EUR 180 million was the impact in our numbers because of the winter storm. And of those EUR 180 million, half of it is recognized in AGC&S and half of it is flowing through our Allianz Insurance. So that's on the topic.

Then you asked for the impact of COVID in 2021. I would tell you the impact of COVID in 2021 was not really significant, and that's the reason why we are not speaking about that. Yes, frequency in motor was still lower. But on the other side, severity tends to be a little bit higher, and we have also been kind of prudent on how we look at the development of inflation going into 2022.

So when I put all these together, I can tell you that there was not a meaningful impact coming from the COVID, positive or negative in 2021. If I can tell you, rather positive but small, definitely not a negative hit in 2021 because of COVID.

As far as 2022 goes, we expect the COVID situation basically to be neutral. At this point in time, I would say that most things have been -- have gone through the system. There is still some uncertainty in some location about what might happen on the claims side, but I can tell you that we have a substantial amount of [indiscernible].

So from that point of view, even the uncertainty that we see, we think we are well reserved for it. And also, we see a tendency for the time being that we saw also in Germany, there was a core assessment, which went in our direction. This might change, but I would say we are well positioned with our reserving.

Lauren K. Day
Head of Group Communications & Reputation

Thanks, Jean-Philippe. Our next question is from Sam Casey from Insurance Insider.

Samuel Casey;Insurance Insider;Media

Can you hear me?

Lauren K. Day
Head of Group Communications & Reputation

Yes, we can.

Samuel Casey;Insurance Insider;Media

You posted really strong turnaround in the AGCS unit past year. Now the P&C sector commercially has attracted a huge amount of new capital and the hard market conditions are transitioning. How are you going to maintain those profits going forward and also try to grow them?

Oliver Bäte
Chairman of the Management Board & CEO

Yes, very good question. we've really learned a lot around that. And it's not just AGC&S, it's the whole commercial segment that in the industry-wide before the rate hardening, has suffered. You see, I don't agree with the statement that we are going into a soft market yet. Because of strong NatCat prices, property prices still increasing, cyber rates have to go up. So there's a lot of momentum still on pricing and on growth, and people are recognizing that they need more risk management than ever. So it's up to us to really capture the growth in a profitable way.

What will be required in Allianz is really strong discipline. And what is very important is not that we just increase profitability substantially, the true sort of attritional loss ratio in AGC&S is actually much better than it looks already, but we've massively reduced the potential volatility because we have been containing risk, reducing line sizes per exposure, introducing much more stringent reinsurance regimes. So the volatility of this business is going to be much lower than it has been in the past.

And we need to remain very disciplined. We are not writing this business for top line. We're writing this business for bottom line. It's something very hard to introduce into the DNA, particularly at Allianz because we are very growth-oriented. But the team around Joachim Müller and Claire-Marie and everybody there has been very, very clear that we need to really contain that.

In order to maintain profitability, even if rates go down, we need to make sure that efficiency, productivity improves. They have already done a great job in driving the expense ratio down. But there's more to be done.

And last but not least, we need to think about how do we deploy capital. That's very important. The old model in our industry is to underwrite risk and warehouse it and then hope for diversification. As I said earlier, it's very important to recognize that private markets often offer capital at better rates, risk-adjusted returns than ours.

So we shouldn't think about ourselves as warehousers of risk. But we are structuring risk, we are underwriting risk and then we need to find the capital sources that offer the best risk-adjusted returns, and they may be outside of our own balance sheet. So that's the way we are going to pursue going forward. Thank you for your question.

Lauren K. Day
Head of Group Communications & Reputation

The next question is from [indiscernible] from Süddeutsche.

Unknown Attendee

Hello. Can you hear me?

Lauren K. Day
Head of Group Communications & Reputation

We can hear you.

Unknown Attendee

Hello. I have another question on AGCS. You seem to be quite happy with the results. Is the future of AGCS now secure? Because last year, it doesn't sound like this. It sounds like there may be some changes if they don't perform quite well.

Oliver Bäte
Chairman of the Management Board & CEO

I don't know what secure is in the world that is as fragile as ours, but the team has done an amazing job. And everybody, as we said, is a part of the group because we try our best and deliver the outcomes. So I think some of these comments were overrated a little bit.

We have changed really the whole team at AGC&S, put our best people there. And whenever we do that, you see the results. So we are very pleased with the results, and we expect continued delivery in '22 and '23 and beyond. And we are very confident that, that is going to happen.

Lauren K. Day
Head of Group Communications & Reputation

We have about 1/4 of an hour left. Our next question is Patricia Kowsmann from The Wall Street Journal.

Patricia Kowsmann;The Wall Street Journal;Media

I'm sorry I'm going to have to ask this. But I need to -- it'd be good to have a clarification on something. You said that you booked EUR 3.7 billion in anticipation for the settlement with major investors. Then this morning, you said you actually finalized the settlement with these major investors, if I got it correctly. So basically, you settled with major investors for EUR 3.7 billion. Is that right? And then are you going to put anything out on that, like which investors you settled with and how many? And can we know how many?

Oliver Bäte
Chairman of the Management Board & CEO

Thank you for your question. Unfortunately, we cannot answer the last question. So the number, again is EUR 2.8 billion net, not EUR 3.7 billion, that's the gross number. And indeed, we did settle with a significant number of investors. But again, as we are not completely done yet, we cannot tell you with whom, unfortunately. But we're very pleased with the progress. And this is the vast majority of investors.

Patricia Kowsmann;The Wall Street Journal;Media

So you settled -- so wait, this...

Giulio Terzariol
CFO & Member of the Management Board

May I add something? So the EUR 2.8 billion after tax, or EUR 3.7 billion before tax, is not just the payments for the settlement with a major investor. There are other components included there, but we cannot be more specific.

Oliver Bäte
Chairman of the Management Board & CEO

Is that helpful, Patricia?

Patricia Kowsmann;The Wall Street Journal;Media

Yes, that's helpful. So it's not -- it's basically not all just paying investors settlement?

Giulio Terzariol

CFO & Member of the Management Board

Correct. Not just paying those investor where we achieve an agreement, yes, it's more than that.

Oliver Bäte
Chairman of the Management Board & CEO

Exactly. It's more than that, and we are trying to go as far as we can at this point.

Lauren K. Day
Head of Group Communications & Reputation

Next question from Christian Schnell of Handelsblatt.

Christian Schnell;Handelsblatt Media Group GmbH & Co KG;Media

I have 2 other questions. First is Allianz Direct. You started 2 years ago, now you changed the management. What do you expect in the future from Allianz Direct? And the other question is a big worldwide topic now, inflation. What do you think? What's the influence of inflation now for Allianz for asset management? What is the change of policy from Fed, from ECB we expect this year? What do you think what's coming on for Allianz?

Oliver Bäte
Chairman of the Management Board & CEO

Yes. Thank you. And good morning, Christian, for the very good question. So Allianz Direct, nothing has changed. It's been in record time live in 4 markets. We just need to consolidate. Everybody that knows insurance knows that in an environment where there are no cars being sold and prices go down, the direct market doesn't grow. So the direct market only grows if prices go up significantly, that's typically a step change where growth in the direct channel happens.

So what we're seeing is totally normal, particularly in light of the cleanups we had to do, especially here in Germany. And we are using Allianz Direct, as you know, as the laboratory to test new technologies, new customer journeys and new products. We have after motor gone live with home products. We're going to go live with travel.

So the strategy doesn't change. And we're trying to create, over time, a do it yourself, as you say, lowest cost base insurance as an internal benchmark on innovation, speed and productivity. That's -- there has been the idea and is the idea. That will be cyclical, as we say. Because of COVID, again, there have been no new cars and no switches to direct, but that is not changing. So we'll keep on doing it.

The changes, by the way, happened because the founder wanted to do -- be a founder, so to speak, Bart Schlatmann, and wants to remain a founder and now we're institutionalizing the business with somebody that really knows how to do, that has enormous expertise and is helping to institutionalize now after the founding phase. That's a totally normal process that we are trying to institutionalize this business now.

Now on the outlook. It's a very important question. And as you know, we have been very clear that we have believed that, particularly in Europe, interest rate policy and QE have been by far wrong because it was trying to drive certain effects that never materialized, higher investments and others. So now it's really high time that we increase interest rates.

We have minus 5% to 6% interest rates in Germany now, which is basically robbery of private people's money and the forecast from the Central Bank will all wrong, right? So last year, they said there is no inflation, then the inflation would be very short, and then there was what now. People have come to recognize that it's there. And the good news is there is still time.

So interest rates have to move up. Now it's totally clear. It has to be done very carefully, particularly if like in the U.S., you've been late in addressing the interest rate cycle, the side effects that once you start to tighten can be very significant. You can actually have negative effects on investments. You can have very negative effects on spread widening that are unintended.

So the balance in terms of how you do that between quantitative easing measures and interest rate policy is something very difficult to navigate, particularly once you've moved yourself into a corner like the ECB has done. We all need them to be successful. So we're keeping our fingers pressed that finally, logic is settling in and not just fiscal policy domination in order to keep public households in some countries protected.

The other thing it will mean is that we need to really carefully look at public spending. We have really increased debt in order to support the economy during COVID even in Germany. And we cannot keep on printing money. We know that, for sure, because of our history in Germany, but other governments have also recognized that handing out money for free forever is not the recipe.

And last but not least, we need to do something for our people. In Germany, where now private households spend 40% more than in our neighboring country, France. And I think our people are getting increasingly upset. They're asking for higher wages. But that's not the answer because that will drive inflation further.

We need to reduce taxes, particularly on energy consumption, where it's going the wrong way. So we need to support the green transition, but it cannot be done totally at the expense of the private households. That's not right in my opinion. That's nothing to do with the so-called just transition. And we've made a lot of proposals and it's time for some action now.

Lauren K. Day
Head of Group Communications & Reputation

Does that answer your question, Christian?

Christian Schnell;Handelsblatt Media Group GmbH & Co KG;Media

Yes.

Lauren K. Day
Head of Group Communications & Reputation

Thank you. We have 2 more questions in the queue for the remainder of the hour. The next is [indiscernible] from Süddeutsche Zeitung. Okay. The connection is closed. Our last question is from Ben Dyson from S&P Global Intelligence (sic) [S&P Global Market Intelligence].

Ben Dyson;S&P Global Inc.;Media

Can you hear me okay?

Lauren K. Day
Head of Group Communications & Reputation

We can hear you and see you.

Ben Dyson;S&P Global Inc.;Media

Okay. Great stuff. Yes. So really, I wanted to ask about life back-books. [Technical Difficulty] Sorry, I'm getting a bit of a strange feedback. So that's why I'm...

Lauren K. Day
Head of Group Communications & Reputation

Sorry about this. We'll follow up on the technology. Power through your question, we can hear you just fine, and then mute and we'll answer for everyone.

Ben Dyson;S&P Global Inc.;Media

Okay. Yes. So really just had a question about life back-books. I mean you transacted EUR 38 billion in 2021. Just wants to ask what that looks like going forward, what you might expect to do in 2022 and future years? And how much there is left to do there really? And then just really on the non-life side, I think you mentioned that the usual expectation for natural catastrophes is 2 points on the combined ratio. I was wondering if you're going to have to revise that given that there seems to be an increasing level of natural catastrophes, particularly from [indiscernible].

Giulio Terzariol
CFO & Member of the Management Board

So I can take these questions. Maybe starting from the second one. I'll just tell you, a few years ago, when we were looking at the load for NatCat and weather related, internally, we always put the 2 things together, our load was about

3 percentage points. And now already 1 or 2 years ago, we moved to about 3.2. And now I can tell you the way we are thinking about the NatCat load, including weather-related, is more 3.5%.

So we've moved basically within 3 years from 3% to 3.5% load. And again, this includes NatCat and weather related. And now we're going to see how the situation develops in 2022 and whether this is enough or we might have to say, okay, we need to go higher. Just to give you an idea, in absolute amount, that's about EUR 2 billion. So basically for NatCats and weather-related events, we have a budget of EUR 2 billion.

What is also important, as you think about the exposure, we have an aggregate that is coming into place, I would say, at EUR 1.2 billion. But when you run the math, there will be, I would say, EUR 1.6 billion, plus you need to add the weather related. So there is a point where when we hit the EUR 2.5 billion on NatCat plus weather-related, at that point in time, the aggregate will come into place.

So that's basically the story. We brought the number up from 3% to 3.5%, and then I will say we have an aggregate that is going to start protecting us once we get a deviation, which is going to be in excess of 100 basis points, I would say. So that's on NatCat.

On the back books. I would tell you, it's hard to put a number in the sense what we're going to do in 2022 versus 2021. And as you saw, we've been working on back-books for a few years. And sometimes, you see there is less activity, and then you see a spike in things that we can bring to conclusion. So all what I can tell you is that we are continuously looking at back-books. So that's what we do basically across all our entities.

And also I want also to add that we're not just doing back-books in the sense of transacting with reinsurance transaction or with portfolio transfer. We are also working really on improving the back-book. That's what we are doing in Italy, where we had renegotiation of the contracts.

Also in France, we are moving the portfolio from capital-intensive products to capital lighter products. I'm talking of the in-force portfolio. So there are a lot of tools that we are using on top of just doing the kind of reinsurance transaction portfolio transfer.

Oliver Bäte
Chairman of the Management Board & CEO

Thank you, Ben. The questions are answered?

Ben Dyson;S&P Global Inc.;Media

Yes.

Oliver Bäte
Chairman of the Management Board & CEO

Very good. I think we have some time because some people had a problem coming in, Lauren. If you're okay, so we try to get some of the people that couldn't dial in online because we have all the time for your questions today.

Lauren K. Day
Head of Group Communications & Reputation

Yes. [indiscernible], if you're on the line, please go ahead. This is what I recommend. I'm very sorry about the technology for some of you that if you're experiencing some difficulty. Also, I think having to hear my own voice on echo is probably my worst nightmare. But what I would ask is we will be here. We can close the conference, and we will be here and you can call Holger or myself, we'll be together, and we'll try to answer your questions individually.

We are here for your questions. We have the time, and I also would really love your feedback on the format of the conference, especially on the technology platform since I know it's difficult for many of you. We want this to be the type of conference where you really get the information that you need, that it's clear, and of course, the user experience should be best-in-class. So we'll keep getting better at that.
Thank you so much for your time, your interest in Allianz, interest in the work that we do, and I wish you a great day. Thanks for following up. Bye-bye.