Allianz SE XTRA:ALV

Earnings Call

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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 the first quarter 2023, which are, for the first time, based on the new IFRS 9 and 17 accounting standards. You know that already before we start the call, I have to do some housekeeping. So let me remind you that this conference call is being streamed live on allianz.com and YouTube and that a recording will be made available shortly after the call.

[Operator Instructions]

All right. It was all from my side for now. And with that, I turn the call over to our CFO, Giulio Terzariol.

Giulio Terzariol
CFO & Member of the Management Board

Thank you, Oliver, and good day to everybody. I'm pleased to present the quarterly results of Allianz, which are very, very good. So we had a very good start into the year 2023. But before we do that, we're going to spend some time to talk about the results of 2022 just to establish a comparison between the new method and the old method. So if we go to Page 5 of the presentation, you can see that under the new method, the operating profit for the year 2022 was EUR 13.8 billion, which is pretty close to the EUR 14.2 billion of the old method.

Here, we had some offsetting effects. In the case of Property-Casualty, we see there is an improvement of the operating profit compared to the old system. This is primarily coming from the discounting. On the other side, you see a low operating profit. On the Life/Health side, this has to do with some technical effects. So from that point of view, this is just related to the first time implementation of IFRS 9 and 17. I'm going also to come back on this points later in the presentation.

Then I'd like to draw your attention to the net income and also to the shareholder core net income. As you see, the net income is above EUR 300 million lower in the new basis compared to the old basis. That's a reflection of the low operating profit. And also, as you remember, 2022 was pretty and the new system tends to be a little bit more volatile compared to the system when capital markets are moving. That's also the reason why, and we discussed that already in December presentation, we have decided to adjust the net income for volatile items. And when we do that, you get to a core net income the way we call this adjusted net income of about EUR 7 billion.

We adjust for the fair value swings so for the swings on assets, which are marked at fair value, where we don't have an offset coming from the liability side. And also, we adjust for the PGAAP adjustment, which are, in any case, in our case, a very small amount. So I'd like to draw your attention to the core net income because that's also the way we are going to monitor our performance. So the primary KPIs are going to be clearly operating profit as always. And then we're going to focus on the core net income. So all in all, I would say nothing is the major change on an aggregate level.

If we go now to Page 7, look at the P&C business. Here, you see EUR 600 million more of operating profit. Basically, the additional operating profit is coming from the net effect of discounting and unwinding. I know that you know the mechanics by now clearly in the course of 2022, since rates have gone up, we get a higher benefit for discounting compared to the unwinding, which is based on the interest rate level or the preceding years. And as you know, the preceding years had a very low interest rates environment.

You see this geography also reflected in the insurance service results, which is going up compared to the whole system because of the discounting. And then the operating investment results is going down compared to the old system because of the unwinding effect. The combined ratio is lower under the new methodology. That's because of the discounting impact. Structurally, if you remove the discounting impact from the combined ratio, the combined ratio is the tendency to be higher, and that's because it's based on a gross basis when we look at the denominator instead being based on a net basis.

So that's in short a story on the P&C side, net impact of discounting is positive in 2022 due to the rate environment. Now we come to Page 9 on the development on the Life business. In this case, you see that the operating profit was substantially lower. We are doing here normalization. We are basically normalizing for the hedge results of Allianz Life. The point here is Allianz Life is doing the hedges, they are doing the hedges also based on the accounting that is in place.

And clearly, the hedges were calibrated last year to the IFRS 4 accounting. The new accounting, clearly that we need to implement retrospectively has a different sensitivity. And that's the reason why we got an accounting mismatch. If we had hedged this kind of accounting, the IFRS 17 accounting also last year, our hedging program would have been different. On top of that, also we refined the methodology of how we run the IFRS 17 calculation, but we implemented this new methodology only in 2023 and not in 2022. So that's also leading to part of this normalization that we do.

So all in all, when you normalize the numbers, you get basically to the operating profit, which is broadly in line with the old basis. And when you look then at the net income, it's absolutely in line with the old basis, and that's because we have some geography issue between the operating profit and the below-the-line item. So the bottom line is in the [oral] presentation reality when you look at the net income or core net income, but for the Life business is more or less the same.

You are not going to see a much different number compared to the old system. Now we turn to Page 11, and that's about the reconciliation between what we call the comprehensive shareholder capital, which is the sum of the shareholder equity in the CSM and the Solvency II own funds. And here, we are removing the usual aspects like the Tier 2 subordinate liability, the foreseeable dividend distribution. So we are removing the items which are by definition different methodological approach. And what is relevant in reality in these slides is the last item, which is other.

As you see, there is a no major difference once we remove all the other items between the comprehensive share of the capital and it's obviously II own fund. So the message in this slide is basically that the 2 basis of valuation are broadly very consistent from a technical point of view. And with that, we come to the IFRS 9 and 17 leverage. This is the way we are looking at leverage, which is basically the comprehensive capital in relation to the amount of debt that we are holding based on this new methodology, the leverage ratio is about 24%, which is lower compared to the leverage ratio based on the old system.

We don't know yet what rating agencies are going to do. And by the way, rating agencies are going to follow different approaches, but we think that's also a way to look at the leverage ratio. And that's also, I believe, a way to look at the leverage ratio, which is going to be pretty standard also in the industry. And that was just a very short update on the numbers for 2022 based on the new system, but I believe the best way to familiarize with a new account is to speak about current numbers.

And as I said also in the press call, no matter what kind of accounting we are using, we are going to provide clearly good results. And the reason is the underlying performance and the fundamentals of the business are very strong. So any accounting system is going to reflect this strong performance. When we look at the first quarter, we had a very good start into 2023. From a revenue point of view, we continue to see strong revenue in Property-Casualty, double-digit growth in the case of Life/Health and Asset Management revenue are subdued, but that's not clearly a surprise considering that there is still some stability in the market.

The operating profit is hedge of last year, but also more important is ahead of the outlook. So if you take our outlook, divided by 4, we are basically 5% ahead compared to that number. And this is coming both from Property-Casualty from the Life/Health business. In the case of Asset Management, we are a little bit behind, the outlook divided by 4, but that's normal because we are going to get the performance fees at the end of the year. So also the case of asset management, we are positive that we can achieve our outlook for 2023.

The operational KPIs are going in the right direction. So basically, if you take out the cost income ratio for asset management, you're going to see an improvement in the operational KPIs, and we saw also positive flows at AGI and PIMCO in the Q1. And then the core net income is at EUR 2.2 billion. Here, we have also the impact from the potential disposal of Allianz in Lebanon. If you adjust for this impact, which is an accounting impact, it's not really an economic impact.

The shareholder core net income will be north of EUR 2.3 billion. If you annualize the number, you get to EUR 9.4 billion of core income for the year, which is also what would be an expectation for this new KPIs. So all in all, a very strong performance on the operational side and also when you look at the core net income a solid number, especially once you adjusted for the accounting impact coming from the potential Lebanon transaction. Also, what was positive is the development of the solvency ratio, 206%. If you look at the sensitivities are pretty much unchanged compared to the sensitivities that we had at the end of the year. On Wednesday night, we announced a buyback. So we continue to deploy capital, which is clearly a sign of the comfort that we have with our capital level and also with our clearly liquidity situation. So from that point of view, we continue to create profit, capital liquidity. And that's also very important. We continue to deploy capital.

If you go to Page 21 on the evolution of Solvency II, basically, the capital ratio is in line with our expectation. The market have been benign. So we benefited from the market environment a bit. And then also what is important on the capital management texture, you see the deduction for the accrual of the dividend, but also there was about 1 percentage points, a little bit less than that, of impact on the solvency ratio because of an investment that we did in innovation group. So we continue to invest basically in capabilities that should support our technical excellence on the Property-Casualty side.

So all in all, to assist solvency ratio, if you adjust for the buyback that we announced in -- on Wednesday, the number is very robust at 202%. And now we come to the segment view, starting from P&C. Overall, you see a very good growth rate of double digit of 11%. And also, you can see that overall, there is a good growth rate in most entities. Also, what is important, the change of renewal is pretty solid and accelerating compared to the change in renewal that we had also during the course of 2022.

So you see a constant acceleration over time. So from that point of view, all this -- what this slide is showing is that we have been reacting strongly to the challenge of inflation, and this also bodes well clearly for the operating performance. When we look at the operating performance from a bottom line point of view, you can see that our operating profit, at Page 25, has gone up by about EUR 350 million. The improvement in the operating profit is coming from the so-called insurance service results, which is if you want something similar to the old underwriting results.

And this is explained by the improvement of the combined ratio by about 2 percentage points. Clearly, in the quarter, we benefited from a lower amount on NatCat compared to last year. But also, you can see that run-off has been very conservative. So all in all, we were extremely happy with the performance of our entity, and we didn't really push this number. So that's very important. 91.9%, is 1 percentage point better compared to the number that we put forward as an outlook for 2023. We are running stronger than that.

And we feel very good about the underlying performance behind this number when we think also how the quality clearly -- or the number because one thing is the number and the level one thing is the quality and the quality is really good. And we can see this reflected also on the performance by OEs Page 27. You see a lot of good combined ratio. So a lot of our companies are performing at a combine ratio, which are under the new method below 90%. And then I would also like to highlight in Brazil, Latin America, we are making good progress. And in Spain, considering the market environment, we have also a solid performance in the U.K. I would say the numbers are good, considering the market environment. We benefited from lower NatCats. So from that point of view, in the U.K., the situation is still a little bit more complicated than in other countries, as you see also from the disclosure of the competitors.

But overall, we are taking strong action. And again, when you look at the total portfolio, we have really a very strong performance a lot of entities. So we're also very confident that we are continuing to see strong numbers in the following quarters. And now we come to the investment income, Page 29, might look surprising that the operating investment results goes down. But in reality, the -- with the new method, we have a situation where the accretion or the interest rate is going somehow to compensate for the increase in investment income coming from the, clearly, the higher interest rate environment.

So from that point of view, we need to start thinking differently about the evolution of this KPI, which is going to be more flattish year-over-year. In our case, then in this case, we have a drop to last year just because last year, we had positive FX effects in the evaluation results and others. So the main message here, it's kind of a trend that you should expect to stay at that level based on the old system because I'm sure the question will come, what would have been the number? The number would have been north of EUR 800 million.

So again, it might not surprise, but reality is not surprised at all, and that's very consistent with our plan. So all in all, EUR 1.9 billion almost of operating profit in Property-Casualty. If you remember, our outlook was EUR 7 billion. So if you annualize EUR 1.9 billion, you get to something closer if you annualized the number you get something like EUR 7.5 billion. So we are definitely ahead of our for the year. We expect also that we will continue to see this kind of rates in the following quarters.

And now we come to Life. On the Life business, Page 31. When we look at the production, we see there is a drop in production of about 12%. Here, we need to consider that we had the impact of the discounting, which is more a technical impact. So if you remove that effect, you get to a growth rate of minus 6%, which is clearly much better than minus 12%. It's not surprising that in this situation, where there is still some uncertainty, the production of Unit-linked or single premium is going to be lower.

On the other side, the new business margin is going up. So we have very strong new business margin. This is a pretax number that's important. So if you do an after-tax number, you're going to get closer to the 4% that you used to see based on the Solvency II approach. But what is important, we are seeing an increase in the new business margin. So when you put together the production evolution, the new business margin evolution, you get then to a very new business of more than EUR 1 billion, which is relatively stable compared to the prior period. And more importantly, it's also a healthy level of new business.

On Page 33, we are showing how the evolution of the CSM. And we like to focus on the so-called normalized CSM growth, which is sum of CSM at inception, which is basically the CSM on new business. Then we have an expectation of a certain growth of the CSM. And then we had a CSM release into the profit. So we'd like to look at the combination of these 3 figures. And in our case, we have a growth rate for the quarter of about 1%.

So if you annualize that number, you get basically to an annualized growth of 4%. Why we like to look at this number because to a certain degree, there is a high correlation between the growth in the CSM and the future growth in the operating profit. So overall, I would say, a good growth for the CSM. We see here a comment on the noneconomic variances and assumption change. The EUR 1 billion is a large number, but that's all driven by a change in the way we are, including Mexico in our CSM. Basically, we are excluding Mexico -- the Mexican business from the CSM because this is not necessarily a business that has to be accounted and IFRS 9 and IFRS 17, if you adjust for that change in approach, the economic variances -- the noneconomic variances and assumption changes are a very small number of about EUR 200 million.

And with that, we can go to the next slide, which is on the operating profit drivers. This is -- the operating profit for us is a bit ahead of our expectation, which is a good thing. And on the same time, it's very much consistent, I will say, when you look at the single driver with the expectation that we set when we had the call in December. So if you go back and look at the document, you're going to see that the single drivers are within the ranges or the expectation that we gave you.

Clearly, a number that tends to be more volatile. We said that from the very beginning, is the operating investment results. It was extremely volatile last year because of this accounting mismatch and was referring to due to the first time implementation for Allianz Life. So definitely, the number is too low compared to a normal expectation. On the other side, the first quarter 2023, no number might be a little bit on the high end of the potential range. But as you understand, it's also a new calculation for us.

So in order to be able to establish what is a run rate on this dimension, we will need a little bit more experience. The bottom line is strong performance from the Life segment. Again, you can see that under the new methodology we are recording a good profitability, basically at the same level you were used to in the old system. There is a KPI that we are not showing any more, which is the difference between the current yield and guaranteed evolution.

If you remember, the number was -- the spread was about 230 basis points last year, this number is going up by about 20 basis points, as we speak because of the production that we have put in our system and because of the higher rate from that point of view. There is a nice trend underlying, clearly, the solidity of Life business.

At Page 37, we are showing the numbers for the selected entities. I will say that when you look at the normalized CSM growth, it's pretty consistent across the different entities. And when you look at the operating performance, you can see also a good level of operating performance no major surprises compared to what you used before.

And on that one, I would also say for the majority of the OEs, you can see there is a tight relationship between the CSM release and the operating profit. There are two exceptions: one is Italy; and one is CEE, Eastern Europe -- Central Eastern Europe. And here, you see that the operating profit is higher compared to the CSM release because some of the business in Italy and CEE is not accounting for an IFRS 17. So bottom line, strong results on the life side, we got new business margin and also an operating profit, which is slightly ahead of our expectation and also from a quality point of view, you can see the consistency between what we told you a few months ago, what is happening right now.

Now we can go into asset management, and I will skip directly to Page 41. Here, you can see that the third-party assets under management went up by about 2%, and this is driven, on the one side, also from the movement of the markets, net of the FX, but then there is also a contribution coming from flows. As we always said, if the situation is stabilizing, we're going to see flows coming back and especially at the beginning of the year, the situation was -- on the capital market was more benign, and this explains also the positive flows saw at PIMCO from that point of view, there is a reverse of the trend that we saw in the course of 2022.

At Page 43 on the revenue, it's not surprising. The revenue are down. That's a consequence of the development of 2022. What is a positive? You can see that the fee margin is going up. That's the case for PIMCO. In the case of -- and also for the segment because PIMCO clearly represent the majority of the segment. In the case of AGI, you see fee margin decreasing that has to do with the Voya transaction. On the other side, we need also to recognize that the expenses are not there anymore. So in reality, from a profitability point of view, the transaction of Voya is more or less of a wash, which is better compared to the initial expectation that we had.

And now we come to Page 45 on the operating profit evolution. The operating profit is down versus last year, but that's in line with our expectation. So if you remember for the year 2023, we have an outlook of EUR 3 billion. If you take the quarterly number, you annualize that number, you get to EUR 2.9 billion. If you think that we get the performance fees at the end of the year, it means that we are well on track to achieve that target if markets are stable or not completely erratic by the end of the year. So bottom line, solid results in asset management, in line with the expectation and also we saw flows coming back in the first quarter and also year-to-date.

Page 47. On the corporate segment, I will say it's in line with the expectation, a little bit better compared to last year. And that's because of some more profit coming from our banking operations in Italy. And then Page 49 on the net income and look at the nonoperating items, you see that the realized gains and losses are lower compared to last year. Last year in the first quarter, we had the disposal of participation and also we had some realized gains on bonds. On the other side, you see that the restructuring expenses are lower compared to the first quarter last year where we had also the restructuring coming from the -- partially from the Voya transaction and then from -- sorry, from the some restructuring in Germany.

And then what you see here is this volatility coming from the assets management fair value. This is also the volatility that we remove below the line, it's not 1:1. There are some elements that we are not removing from this line item, but the majority of volatility removed in the definition of core net income. So all in all, EUR 2.2 billion core net income. As I said before, if you remove Lebanon and you annualize the number, it's a strong core net income of EUR 9.4 billion as a sort of what could be an expectation on a normalized level for the year.

And now we've come to last slide. So overall, again, a strong set of results. I would really say excellent start into the year with strong operating performance, I would say, across the board. We are 5% ahead of our outlook divided by 4. We also see good momentum. So we believe we are going to carry this good momentum in the second quarter and also in the remainder of the year. And also we announced buyback just the other day of EUR 1.5 billion. We are also, at the same time, invest in the business, as I was saying before. So I would say that we are very pleased with the results, but especially we are pleased with the momentum that we see flowing through our businesses. And with that, I would like to open up to your questions.

Question and Answer

Oliver Schmidt
Head of Investor Relations

Thanks, Giulio. Thank you for your presentation. We now will be happy to answer your questions. And we will take the first question from Andrew Sinclair, Bank of America.

Andrew Sinclair
BofA Securities, Research Division

Three for me, please. Three for me. First is on the P&C business. You talked about the quality of results and I feel you've kind of been making a similar message for the last few quarters about booking the current year conservatively when you're getting so much investment income, et cetera. But without detailed reserve triangles, how can we really see that, that prudence is being built? Where can you give us some numbers just to provide some comfort about the extra prudence going into reserves? That's question one. .

Second question was on capital return. Why was EUR 1.5 billion the right number. The solvency ratio is still over 200% post the buyback. Just thoughts on what could come next. I realize you just announced one, but what are the thoughts on further buybacks versus M&A?

And third was just on Life. You talked about the hedges in the U.S. and they are going to be adjusted for the new accounting particularly in the U.S. It sounded a little bit strange to me. I mean I have thought hedging would be focused on the economic trial in the accounting. Can you just tell us a little bit more about what hedge changes you've been making there? And how you can feel comfortable that those economics are well hedged?

Giulio Terzariol
CFO & Member of the Management Board

So starting from the first one, which is about the prudency and how you can get comfort with the prudency. One way -- in reality, one way to do is you spend a lot of quality time with the chief actuary, you go through all the numbers, and then you're going to get the confidence. The other way to do it is just look at our track record. And you can also see when NatCat are lower, the run-off is magically lower. When NatCat are higher, you see that there is more run-off coming through. So we are managing to an outcome at the end of the day, you can see that over time, we have been extremely consistent.

So the proof point is just look at the consistency on how we deliver numbers, just go back do some analysis, you're going to see low NatCat automatically, you see a little bit more run-off. You see also less run-off, you see also the attritional loss ratio tends to be a little bit higher and vice versa. And this is a sign clearly that we have a lot of balance sheet strength. And also that when we have a situation like this where the NatCat are lower, we're going to use this situation clearly to also -- to even further strengthen the balance sheet, let's put this way. So we're managing to an outcome.

So we said that think about 2023, the combined ratio, we said 93%. Now we are running 91.9% with a high-quality. And we can assure to you we have not been waiting to achieve this 91.9% combined ratio. But the other way is you need really to spend a lot of time with our actuaries, but we are not going to give you access to clearly our [indiscernible]. Seriously look at the numbers over time, put the numbers down in the table and you're definitely going to see this kind of pattern also just look at the static combined ratio. We are speaking of in general, very strong numbers. Also looking at the combined ratio across the entities. You also don't see that also [indiscernible], a big [indiscernible] of combined ratio where maybe a couple of entities are posting 80% combined ratio to see for a lot of businesses performing maybe and also good in our case, you see rather a lot of companies performing very good and then maybe you might have a couple of companies having a little bit of a more elevated combined ratio.

So there's also something I do. I always -- so when I look at other companies, I always look whether the combined ratio is equally distributed between the entities. So you have somebody carry more of the weight, I would say, in our situation, you can see that there is a lot of quality across the board. So that's on the combined ratio or message, we feel very good about the performance in P&C. And again, EUR 1.9 billion of operating profit. Annualized a number is EUR 7.5 billion, and will definitely have strong numbers also as we go in Q2, Q3 and Q4. On the buyback question, look, we just did a buyback right now, so I'm not going to speak about when the next buyback is going to be.

Clearly, our strategy and philosophy is always to combine capital deployment, both in the sense of remittances, but also we like to invest in our future. That's also important. We can do both. We have been proving that over the last years, if you take our buyback budget, you take basically what we invest in M&A is pretty much 50-50 over time, and we're going to continue to use this philosophy over time. And clearly, I'm not going to make any statement about what could happen in the last 3 or 6 or 9 months. But fundamentally, what we do is to use both clearly opportunity buyback and M&A. I believe that's the best strategy in order to ensure a strong performance in the short term, but also build up the franchise for the mid and long term.

And the final question is about the hedging on Allianz Life. That's a classical situation that you have when you have an accounting change. And clearly, when you set your hedging program, you're going to look at what the economic of the hedging program, but you need also to look at what the accounting is. And by the way, the economics is also just a model. Sometimes we speak of economics, and we tend to emphasize this economic as being the absolute truth where in reality, at the end it is also model. So the point, the philosophy has always been to try to strike the right balance between -- or the hedges also considering the accounting situation. And clearly, if you do a change ex post or the account you're going to get is volatility. So there is no issue with the hedge at all. Indeed, to show to you the hedges of Allianz Life they were doing what they were supposed to do in the old account.

And now that we flee to the new account, you saw the numbers in Q1 to show you also with the aligned hedges, that the hedges are responding properly. So that's just about the implementation of retrospective change in accounting. It's more about account as opposed to be about the hedges. I hope this helps.

Oliver Schmidt
Head of Investor Relations

And we will take our next question from Peter Eliot, Kepler Cheuvreux.

Peter Eliot
Kepler Cheuvreux, Research Division

A couple of follow-ups actually on Andrew's questions actually, if I may. Firstly, on those hedges, I guess another way to ask the question is that if you had calibrated the hedges to IFRS 17 a year earlier, would we have seen any impact outside of the accounting, so on cash or anything else? That's the first question.

Secondly, on the run-off, the run-off ratio this quarter is 3 points lower than it was Q1 last year when it was 4% on the old accounting. So can I just do the math and say that on the old accounting, we would have had a 1% run-off this quarter? Or is that the wrong way to looking at it?

And maybe related to that, I don't know if you might give you an opportunity to say your degree of comfort on the inflation reserves and how they've developed over the last quarter? And then finally, third question, wondering if you could comment on the persistency you're seeing in Life, both ideally by geography and channel?

Giulio Terzariol
CFO & Member of the Management Board

So on the hedges, we hedged differently in last year. But the operating profit last year would have been all over the place. And clearly, you get anywhere different cash flow because the hedge -- different hedge is going to provide different cash flow. So from that point of view, sure, there would have been a difference. Now you should also look at the things not just last year, you should look over the last 15 years. We had IFRS 17 accounting in the last 17 years, we would have a different hedging program all along. So

-- but that's basically the answer, but what we try to do is always to hedge also based on the prevailing accounting. Also, we take into consideration also clearly for the statutory account.

So we try to find the right balance between what we think should be an economic hedge, what should be a statutory hedge and also what is an IFRS hedge. The things are holding to grade up pretty well. Just when you have a change in accounting, clearly, the system retrospectively, can introduce some noise that when you put this noise compared to the size of the company, honestly speaking, it's a relatively minor. On the run-off, if I understood your question properly, you were asking what is the difference in run-off between the 2 periods. So this year this...

Oliver Schmidt
Head of Investor Relations

Excluding the risk adjustment.

Giulio Terzariol
CFO & Member of the Management Board

Yes, the risk adjustment is 80 basis points basically in both years. So if you exclude the risk adjustment, the run-off would have been 1.2% in Q1 2023 and 4.2% in Q1 2022. So take out 80 basis points of risk adjustment. That number, the 80 basis point is supposed to be relatively stable. It might be 90, it might be 70, but it's not going to double, so you can assume something of that magnitude also for the near future.

Then on the inflation reserve since the last time I talked about the inflation reserve. We just -- I just got -- even my grandma asking that was asking me about inflation reserve. I can just tell you, it went up a bit. And that's also indication of the solidity of the choice that we made in Q1, but I'm not going to speak about the number, but it went up a bit.

And then the final one was about the persistency on the Life side. I will say that in general, we see good persistency. I can speak about the U.S., the lapses are very much in line with the expectation. Also in Germany, we don't see a pickup in lapses. Also, in general, we don't see a pickup in lapses in Italy and France with some exceptions. So there are some portfolios and distribution channel where you see a little bit of an uptick, but nothing really major. So either there is not much really happening or nothing happening or some situations really just specific to some smaller books or some distribution channels. So no concern on persistency or lapses from our side.

Oliver Schmidt
Head of Investor Relations

We will take the next question from Michael Huttner from Berenberg.

Michael Igor Huttner
Joh. Berenberg, Gossler & Co. KG, Research Division

Sorry, it's a bit noisy. I've got an internet problem. Two questions. One is you're talking about strong momentum so much. I was wondering if you could -- if you give us a little bit more on the topic. You mentioned two numbers, EUR 9.4 billion for net income and [indiscernible] maybe you could kind of put more flesh to the bone. I know you've done a lot, but I'm trying to get to hope that the share price will get to EUR 300 million. Then on the Life cash flow, so this is my favorite topic. I'm not sure if it's relevant, but obviously, we've seen what a subsidiary we paying and you would probably thought that was our pay next year. Can you give us a feel for what's happening, particularly with respect to Allianz Life.

So my expectation would be that it goes up quite strongly because -- well, the solvency is super strong. It's flat, I think, but it should be -- there's no cloud on the horizon as far as I continue to saying that the lapses or to anything. And then the final is on alternative assets. I think I can never remember whether it's me or just the whole team or you're saying but you're kind of deemphasizing them. But I wonder if you could talk a little bit about this. Certainly, you've seen a lot of investors and it's the one topic which about Allianz, what they do, who are we, a little bit. And if I allow the [indiscernible]. You asked about life persistency. I just wonder about non-life persistency to give a feel for how strong the market is.

Giulio Terzariol
CFO & Member of the Management Board

Yes. It's not always easy to understand you. So I try to understand then you tell me whether I got the question or didn't get the question. So the first question, I think it was more general about the momentum and why I'm positive about the momentum. I'm positive about the momentum because look at the numbers. We have a double-digit growth in P&C with an acceleration on the rate changes. If you think also about the dynamic of the earned premium, clearly, we are getting more and more earned premium, which has been priced for a different level of inflation. Also inflation reality is now accelerating. So we are getting very good numbers already now without making major efforts. So that's definitely boding well also for the next quarter. .

We already now ahead basically of our outlook for 2023 in P&C. On the Life side, you see also consistency in the delivery across the OEs. We also know that higher rates are positive for the Life business because we are matched, let's start from there. So from that point of view, you could say, who cares if you have higher rates, but we know that any way, there is always a little bit of leakage in the system. So the [indiscernible] the rates are higher, is also definitely something strong. When you look at the solvency ratio evolution, you see that the capital increase in the solvency ratio is coming from P&C, which is a good thing.

In life, we see a reality that the capital intensity the business evolution when you look at the Solvency II OEs is even positive. So there is a release of SCR on the business evolution coming from the Solvency II OEs. And also in asset management, I would say last year was very tough. But now we see there is asset under management are going up. There are some flows coming. We are basically -- right now if you take the number, you analyze the number and the operating profit, we are basically almost at the outlook level. And we know the performance is coming at the end of the year. So if the markets are stable, we are definitely going to even see a better number compared to the EUR 3 billion, but we will see what happens with the capital market. So that's the reason on the momentum, why I feel good. The other question, there was a little bit more challenging was cash flow. I don't know -- and I think you were referring to cash with Allianz Life, but I'm not sure...

Michael Igor Huttner
Joh. Berenberg, Gossler & Co. KG, Research Division

[indiscernible].

Giulio Terzariol
CFO & Member of the Management Board

And you're referring to cash flow from a point of view of policyholder cash flow, I guess?

Michael Igor Huttner
Joh. Berenberg, Gossler & Co. KG, Research Division

No, no, no. Actually, I was hoping that you would say there's a lot of cash coming as a distribution.

Giulio Terzariol
CFO & Member of the Management Board

Distribution. So Allianz Life already paid about EUR 200 million dividend in Q1. So -- and by the way, they pay dividend on a quarterly basis more or less, or semiannual. So we already got EUR 200 million of dividend coming from Allianz. And by the way, they are growing, which in their case, grow tends to be a little bit of a drag because they are not on Solvency II from a capital absorption point of view, so they have a nice growth rate. They paid already EUR 200 million of dividend. We might see clearly further dividend in the remainder of the year. So no, no, a pretty good situation from a cash flow point of view. And not just at Allianz Life, by the way. In general, we are getting good remittances from our companies.

And then the last question was about alternative assets. Look, alternative assets is the following. So we are not necessarily divesting now from alternative assets. So it's more about the new money that we are getting is mostly invested, not necessarily with the same allocation to alternative assets like in the past.

So we're still, anyway, clearly having allocation to alternative assets. But right now we see clearly that also more traditional fixed income can be very appealing. Just to give you an idea because we always speak about cash flow in general, we had about EUR 25 billion of new money investment in Q1. So that's more what we are using somehow to slowly, slowly recalibrated portfolio toward less alternative asset allocation. But we're now speaking our major changes.

Oliver Schmidt
Head of Investor Relations

We will take the next question from Andrew Ritchie from Autonomous.

Andrew James Ritchie
Bernstein Autonomous LLP

A couple of questions. Giulio, you seem to be giving guidance now on core net income. Can we just be clear what that is or how it's defined? Because obviously, it's a sort of self-measure you've come up with. I think it excludes purchase gap accounting impacts, which is clearly new. What investment impact does it exclude? I think it's to do with the thing that it might include things like private equity that you earmarked that might be excluded in that measure. But can you clarify exactly what this new measure of core net income excludes.

Second question, the Life CSM appears to have gone down quite a bit in 2022. And then haven't done much in Q1, can you flagged some negative variances outside of the Mexico treatment. And the new business CSM is more or less equal to that running off. So I'm not clear if I think things of Life CSMs are ever really going to grow other than the unwind. Can you give me some insight there? The other question related to Life. What additional work or analysis have you done on asset stress in AZ Life, particularly real estate? It has, I think, the single biggest concentration of commercial real estate within the group is in AZ Life. What additional work have you done on looking at our portfolio and assessing the quality of it? And the final question is just a clarification. The risk adjustment impact should be neutral. But if the portfolio is growing, it won't be. So was there a small drag on the combined ratio from risk adjustment, i.e. more assessment going in the new business than what's running off the back-book?

Giulio Terzariol
CFO & Member of the Management Board

Maybe I start from the last one. Yes, in theory, when you have growth, you should see a tiny track. Now in our number didn't look at double digit after the comma, so that was 0.8% and 0.8% on both, but you're technically right, as you -- and because there is always some noise, by the way, you're technically right. In reality the risk margin should be a little bit of a drag, but nothing really material. So that's on the risk adjustment.

On the -- maybe starting with the first question, which is the core net income. Basically, what we are adjusting beside the PGAAPs, which are very tight in our case. And the reason why we're adjusting for the PGAAP is on the one side is a noncash item, but even more important, we can have a long debate about once you do the purchase price allocation about all this calculation. So it's a very interesting dialogue that you can add with a lot of technical people. So at the end of the day, it's something really arbitrary. But also, I will say the depreciation this PGAAPs doesn't follow at all the economic of the deal because it's pro rata. But most of the time, the profit is not necessarily emerging equally and especially not at the beginning. So we decided to remove it. It's really immaterial anyway, amount in our case, but the logic is such that we can create some emotion. So we decided to remove it.

On the most important part, which is the removal of the fair value swing, these are swings coming basically either from funds because funds cannot be -- they had to go through the P&L. These funds can be private equity funds by the [I'Italia], we have a lot also of emerging market funds, bond funds. So when you look at the adjustment that we did for 2022, which is north of EUR 500 million of that adjustment has to do with swings in bond funds also on bonds, which have failed in the test, the SPPI test. So in reality, a lot of the volatility is coming from interest rates is not coming from private equity of equity funds. There was also a component coming from equity funds. But last year, there was a huge component coming from a reality bonds. And the point is, we don't have a possibility to treat those bonds or funds differently.

And then you had a question about the CSM and why the CSM went down last year? That has to do with the increase in interest rates, which has basically -- and it was -- it's basically led to a lower CSM. Because at the end of the day, the profit that we do, in the case of Allianz Leben, tends to be profit which is pretty safe. So when you have an increase in interest rate, you're going to get basically a lower amount of CSM. And also last year, anywhere, we had equity market going down. So there was definitely a lot of dislocation in the market, but we had also this kind of effect coming from rates going up.

And then we have final question was on Allianz Life. Yes, we looked at Allianz Life. We look at Allianz Life, not only from the point of view or the commercial loan portfolio that they have, but also we looked at Allianz Life from a lapse point of view. Again, we are not seeing any lapses, but we did anyway test what would happen if we have 2x the lapses that we usually see. And because of the surrender charges that we have because of the income benefit the clients would lose because of the MVA adjustment, we could sustain a increase in lapses of 2x without any major impact. Then we also looked at the commercial loan portfolio. It's about EUR 15 billion. It's a very high-quality portfolio. I know everybody likes to say the portfolio is high quality, but I can tell you, loan-to-value is about 55%. The debt-to-service ratio is about 2x. It's also diversified portfolio.

So we clearly then look at the individual position and there is really -- there could be a couple of small items that might be in yellow. But otherwise, there are no items which are having a color, which is now green. I can tell you, I was in Allianz Life during the financial crisis of 2008, and we didn't see -- which was a clearly a big test for a commercial loan portfolio, and we didn't see basically any meaningful impact on the commercial loans. So think about high quality, also very well-diversified portfolio. We have CMBS, it's about EUR 5 billion to EUR 6 billion, high-quality, AAA, the majority of it. So we are definitely not chasing the high risky part of the commercial loans of CMBS, we are very much focused on the quality, and this is clearly very helpful when there is some tension build up in the market. So no concern on that portfolio.

Andrew James Ritchie
Bernstein Autonomous LLP

Can I just clarify on the Life CSM. Would you expect in the medium term CSM new business to exceed the CSM release?

Giulio Terzariol
CFO & Member of the Management Board

Okay. In the near term, it might be that it's going to be pretty even because right now, as you see, the new business value tends to be -- production tends to be a little bit on the low end. I would definitely explain that once we get better to a more normal level of production that we will see the CSM at inception being higher than the release. For the time being, you see this number, 1%. This could be what we are going to see plus or minus also in the next quarters. Eventually, I would say we should go back to the level of production that we had a if you want before the Ukraine war and considering that we are going to keep a new business margin north of 5% and now the combination should lead to a CSM at inception, which is higher than the CSM release. But for 2023, I will be a little bit on the cautious side based on what we are seeing right now.

Operator

We will take our next question from Ashik Musaddi from Morgan Stanley.

Ashik Musaddi
Morgan Stanley, Research Division

Just a couple of questions I have. I mean there is a big benefit coming out of discounting in this period. So can you just help us understand how to model the discount benefit? Shall we just care about the movement in interest rates in a given quarter why work with the delta? Or is there any better scientific way of thinking about how to think about discount benefit quarter-after-quarter or year-after-year. So that would really help.

Second thing is the CSM expected growth. I think that's just the unwind of the discount rate. Can you just give us some assumptions behind that I guess it's too early to ask for this, but I just thought okay, why not? Any thoughts on what are the assumptions with respect to interest rates, equity market, real estate, et cetera. Any thoughts on that would be helpful to get some sense. And just last question is, I mean, clearly, you mentioned to one of the Michael's -- to one question that Michael asked about alternative assets that the new money allocation is more heading towards traditional rather than going into alternatives. And why would that be the case? I mean is it because you think that you have reached more or less a ceiling on alternative assets? Or is it just because okay, the traditional way of assets is giving you enough returns to meet your guarantees and the spread. So what's the point of -- why bother about going into alternative? So that 3 questions would be very helpful.

Giulio Terzariol
CFO & Member of the Management Board

So maybe starting from the discounting. Yes, there is a technical way, obviously, to [indiscernible] discounting. So I would say, if you look at the annual basis, I will say that you can take a duration of about 2. And then you need to apply what the discount rate is, let's say, now for the Allianz [indiscernible] slightly below 4%. And then you need basically, you can take our loss ratio and you take 50% of the loss ratio, and you apply this 50% of the loss ratio to the insurance revenue. So if you do that kind of calculation and maybe Oliver Schmidt tomorrow or Monday can give you the repeat of that and you get to the number. So I think 2 years duration, about 4% of discounting as we speak, and then take 50% loss ratio times insurance revenue, this should be a good process for the discounting that you see on a yearly basis. When you look at the quarter there can be a little bit of noise, both on the amount of discounting and also on the amount of interest accretion, but I don't see we need to get into this nitty gritty thing because eventually, the 2 effects are more or less offsetting each other.

So -- but there is definitely a way to learn how to project a discounting. The call might not be that I manage to do that, but absolutely, we can help you out with understanding how this line item is going to move. On the CSM and the expected growth, I would say this one is supposed to be more or less at this level. It's not going to change significantly because of changes in the economic parameters. So clearly, if the economic parameters are changing, you're going to see a swing in the CSM, but that's reflected in the economic variances. But this is not going to be enough to change substantially the expected growth because expected growth then is always based more on an expectation for the future, which is now going to be overly sensitive to changes in the projection scenario. And the final one on the alternative, I will say the following.

Clearly -- first of all, maybe also let me be a little bit more specific. We are kind of the alternative, but also it's a choice between alternative equity versus alternative fixed income. So I would say that for alternative fixed income, there is still a level of appetite that is a little bit higher to the level of appetite that we have for alternative equity. The reason for it is just a capital efficiency point of view because at the end of the day, right now, by investing fixed income or alternative fixed income, you can get a really nice yield, and that's enough for us to offer a good value proposition to the customers. And these assets are carrying a lower charge compared to clearly alternative equity. So that's the reason we're getting a good yield at capital efficiency, which is superior.

Oliver Schmidt
Head of Investor Relations

We will take the next question from Vinit Malhotra from Mediobanca.

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

So my 3 questions, one on each segment, please. The first one is just looking at the P&C growth and the rate dynamics on Slide, I think it's Slide 12. Hang on let me just tell you the exact slide. It's not 12, sorry, it's 23, I beg you pardon. So it's Slide 23. I mean what it seems to suggest is that say France or Spain is

8% of rate, but volume or internal growth is much lower. So, I'm just curious, are you trying to manage some exposures in these key markets? I mean there are other examples on the slide. So when you just talked about confidence and momentum. And I'm just wondering whether we need to discuss some of these exposure reductions, which are implicit. That's a P&C question.

On the Life side, I would say that the CSM sensitivity, so thank you for providing that. To equity seems to be much higher than the interest rate, maybe it's an optical presentation topic. But is that because of the VA book is at life, but I'm surprised that interest rates are not bigger, and this is Slide 33.

And last topic is bit more conceptual on PIMCO. We've talked about how stabilization or stabilizing rates, interest rates would help. Do you think we are somewhat nearer to that than we were before? I know March must have been terrible. But just curious to hear your thoughts about that topic, too.

Giulio Terzariol
CFO & Member of the Management Board

Yes. So starting from the P&C growth. I think you were focusing on France and Spain. First of all, I have to say sometimes the way we -- the base for the calculation of the rate change renewal is based on some calculation, which is not 100% and consistent compared to the internal growth. So you need always to take these numbers to a certain degree with some grain of salt. I can tell you in the case of Spain, Clearly, the main focus has been strong prune the portfolio and not pruning because it's not so much about pruning. The situation in Spain, as you can see in the market, the combined ratio going high very strongly. So there was a strong reaction from the company. You can also see that our combined ratio in the first quarter tends to be better compared to what you have seen so far.

So in the case of Spain, there is definitely a lot of push on premium increases, also the cost of volume, and there was also anyway a prune specific in MidCorp. So there's a situation in Spain. In France, I will say there is less of a strong need of action like in the case of Spain. And in the case of France, I will say the disconnect that you see between internal growth and the rate change or renewal is more due to, if you want a methodology that is used for the calculation. So that's a little bit more of noise as opposed to be an indication that volume means. France is really going significantly down. On the CSM and the sensitivity to interest rates, I have to say -- I'm also a little bit surprised that we're going to have a little bit more sensitivity. That's anywhere the reality of the numbers that we have right now. We saw more sensitivity in the past. That's -- again, bear with us, this is a little bit of no calculation.

We're going to see how the CSM sensitivities are going to move over time. You might have also [indiscernible], by the way, by OEs, but I was always also kind of pleasantly surprised to see that we had this kind of stability. I have to say something anyway. If you look at the Solvency II ratio, the reality Solvency II ratio is also very stable when you look at interest rates. And indeed, the volatility that you see on the solvency ratio is mostly coming from the SCR, it's not coming so much from the own funds. So from that point of view, reality the calculations are giving a similar message and we don't tend to be very sensitive to interest rate.

This said, I would have expected also a little bit more sensitive to the CSM, but this number are not going to change substantially in the next quarter. So the main message is, as of now, we'll look pretty immunize from rate changes and you see both in the CSM calculation and also you see that in the calculation the Solvency II. And regarding PIMCO, if I understood your question, it was about -- the question was about what kind of momentum we see on PIMCO interest rates trend and so on. I can tell you, [indiscernible], a way in the beginning of the year when the -- if you remember, in January, February, there was definitely a positive sentiment we saw flows coming back pretty strongly. And then I would say, starting March and also April, we saw basically flows being relatively flat. .

So when you look at the flows that we had year-to-date, they are basically coming from the first weeks of 2023. On the other side, also, you didn't see outflows in the last 2 months, if you want. So it looks like the situation now is more stable compared to what we had last year. And I would expect that the trend is going to be -- or the possibility to have a positive trend is higher compared to the possibility to have a negative trend, and the reason is once we are going to have all this noise about the debt ceiling behind once, I believe, we are going to have a confirmation that inflation in the U.S. is stabilizing, automatically, there will be less [indiscernible] across that the rates might go up, and this is going to lead to investors being -- willing to -- being going into fixed income solution.

So if you ask me, I would even expect that at some point in time, we're going to see very strong flows coming into PIMCO because a lot of investors will look for fixed income solutions. At the moment, I will say is still a little bit choppy. Clearly, so for the time being, it's difficult to say what direction we're going to have in the next 3, 4 months, but I'm pretty positive that's midterm, we're going to see really good numbers coming through.

Oliver Schmidt
Head of Investor Relations

Our next question will come from Dominic O'Mahony from BNP Paribas Exane.

Dominic Alexander O'Mahony
BNP Paribas Exane, Research Division

I just got a couple of pretty quite detailed ones remaining. First is back on the P&C pricing slide. I was just slightly surprised to see the rate change for AGCS at about 2.3%. But on the face of it, it doesn't look like the sort of number that you'd want to sort of cover inflation and the reinsurance costs, but I wonder whether there's more context and color on the rates you're achieving there that might explain why your number that's very happy growing at [indiscernible] 22%. And then the second question was really a follow-up on the lapse surrender persistency topic, and it's a very specific topic. How much exposure do you have in Allianz Leben to annuitization options? Have you seen any sign of your customer base changing the rate at which they exercise those annuitization options?

Giulio Terzariol
CFO & Member of the Management Board

Okay. Maybe I start from the second question. I don't know what is the percentage of policy with the annuitization option. I can tell you anyway, we don't see customers change in their behavior. So that's -- I know for sure that there is no change in behavior, but I couldn't tell you now how much of our business has annuitization option. So now -- apparently it's is about 70% to 80%. I don't think it's anywhere used at that level. So one thing is to add a annuitization option, but the utilization of the annuitization option is very low. We don't see any change in this annuitization option. So that's on that item. Otherwise, regarding AGCS, I just tell you the 2.3% that you see on the slide.

So we had a follow-up with AGCS on that number. And we think the right number is more about 4% to 5%, which is basically in line with the inflation that AGCS is always different clearly by line of business. But fundamentally, what AGCS is doing is pushing rate increases, which are in line with the expected inflation, which is also around mid-digit across the book. And also the retention ratio to AGCS is pretty healthy. So we are above 90%. You can see the combined ratio is very strong. So we are thinking that there is -- the right amount of rate increases coming to match inflation also to preserve the profitability of the business.

Oliver Schmidt
Head of Investor Relations

We will take the next question from Thomas Fossard from HSBC.

Thomas Fossard
HSBC, Research Division

Just one question from side on the P&C. Right, just a clarification on the momentum for the price increase you're saying 5.6% in Q1. If I'm looking at the previous quarters, it was up 7.5% in Q4 and 6.7% in Q3. So the question is, have we now has the peak of the pricing momentum? And given the timing of the renewals of your main countries, I mean, should we have now the -- a pretty final picture of what you expect the price increase to be in 2023?

Giulio Terzariol

CFO & Member of the Management Board

Okay. So I would say -- first of all, when you look at the numbers, also make sure that you look at by OE because clearly, you're going to see different trends when you take trade into the equation outside the equation. So that's also very important. But in general, I would say -- I would expect that we are going to see this kind of rate changes being stable at this point in time. So I would not expect that you're going to see an additional acceleration but they should be stay stable because these are the rate changes clearly that are needed in order to match the inflation, let's put this way that we are seeing right now. I want to be anywhere very clear reality, we don't see a lot of badly injured inflation yet. So that's something very important. When we think about spare part inflation. That's a little bit of a different game.

I already said in the call last time that's basically if you increase inflation, spare part inflation by 5 percentage points, that's equivalent to 1% loss ratio. I'm speaking of motor. Another way to look at that is if you have an increase in spare part inflation of 5%, the inflation that you get in your book is 25% or 5%. So it's like 1.25%. So think about that, you see 8% to spare part inflation. This means in reality 2% inflation for the book.

Against that, we get some nice rate increases. So I think what we are getting right now is definitely adequate to match inflation also to matching an expectation. The badly injured inflation might go up. That's exactly what we are doing. We are not just trying to keep the spare part inflation in the price put into the price, but also anticipating potential inflation down the road. And I would expect that you're going to see this kind of rate changes stay also in the course of -- in the remainder of the year.

Oliver Schmidt
Head of Investor Relations

Thank you, Giulio. We do not have any further questions for now. So thanks for joining our conference call today. We say goodbye to all of you and wish you a very pleasant remaining afternoon.

Giulio Terzariol
CFO & Member of the Management Board

Yes, and ask a lot of difficult questions to Oliver in a next week about IFRS 9 and 17. No, thank you, guys, and we know it's a lot of change coming. I hope that we could give you a good disclosure. And with that, thank you for your time and for your calls and to the next time.

Oliver Schmidt
Head of Investor Relations
Thank you. Bye-bye.