S&P Global
Market Intelligence

Allianz SE XTRA:ALV

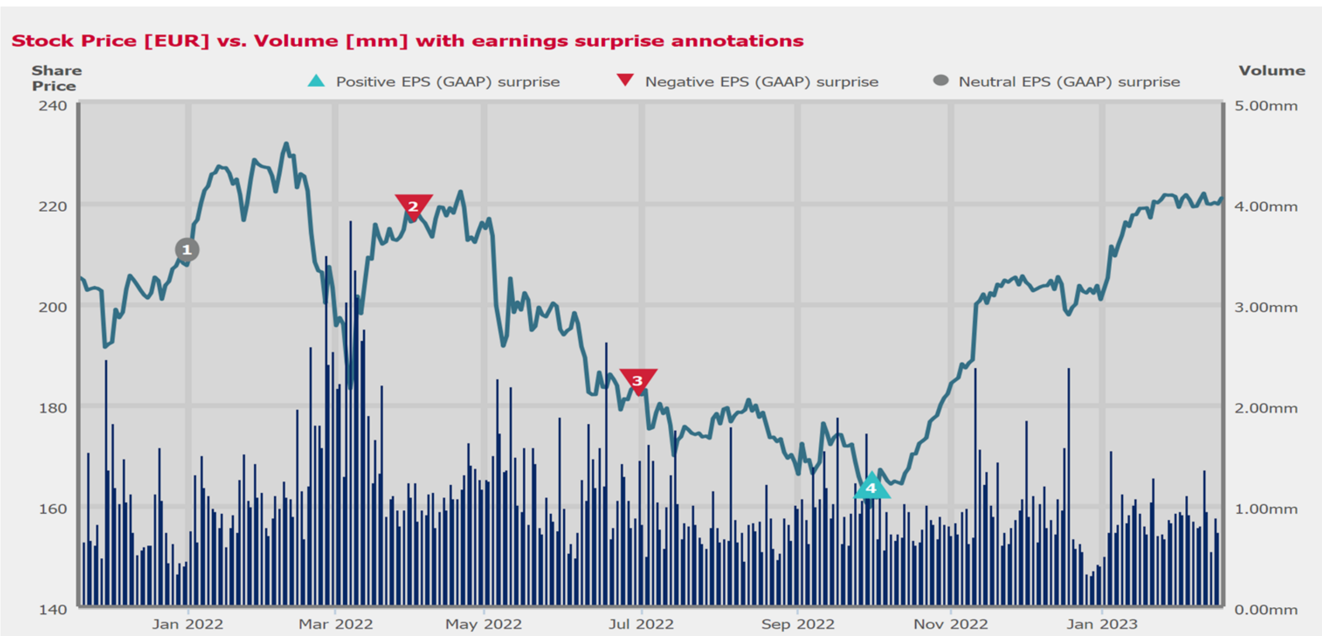
FY 2022 Earnings Call Transcripts

Friday, February 17, 2023 10:00 AM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2022-			-FQ4 2022-	-FY 2022-	-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS (GAAP)	5.09	6.02	▲18.27	5.16	16.90	NA
Revenue (mm)	37206.76	34813.00	▼(6.43 %)	37913.97	151504.42	NA

Currency: EUR
Consensus as of Feb-16-2023 7:46 AM GMT



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Call Participants

EXECUTIVES

Giulio Terzariol
CFO & Member of the Management Board

Lauren K. Day
Head of Group Communications & Reputation

Oliver Bate
Chairman of the Management Board & CEO

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Alexander Huebner

Ben Dyson

Presentation

Lauren K. Day
Head of Group Communications & Reputation

Good morning, everyone. My name is Lauren Day, Group Head of Communications for Allianz. And it is my pleasure to welcome you to our Annual Media Conference. I am joined by our Chief Executive Officer, Oliver Bate, and our Chief Financial Officer; Giulio Terzariol, who together will give an overview and assessment of our 2022 results. Today's conference call is scheduled for 90 minutes. After the management presentation, we look forward to taking your questions.

[Operator Instructions]. We sincerely look forward to the discussion, and I now have the privilege of handing over to Oliver.

Oliver Bate
Chairman of the Management Board & CEO

Yes. Good morning, everybody. Thank you for dialing in this morning. We are happy that you are spending the time with us, and I would lead you through the highlights of 2022 now, and then hand over to Giulio Terzariol, our CFO. I'd be very brief, we had a really strong 2022 in a horrific environment. And I'll get to the environment in a second, before that, I'll give you some highlights.

We have another record in revenues and operating profit, which is up 6% to an all-time high of EUR 14.2 billion. What is very important to us despite all the volatility externally, we continue to deliver productivity gains out of our global scale. We have had a further reduction in our expense ratio, excluding Allianz Partners, which is very volatile in terms of cost, it's 51%. But even at Partners, it's going down on a like-for-like basis.

So that means since 2016, we have more than 240 basis point continuous reduction of the expense ratio in P&C as the key indicator that our programs are keeping to deliver. And by the way, we do not intend to let go of that. We intend to further drive productivity through global scale.

We've also demonstrated strong pricing power. P&C revenues are up 12%, a lot of that is in pricing and our new business margin increased further by a whopping 64 basis points. You also see, by the way, the effect of the highly attractive acquisition in Poland manifesting itself here. Capitalization proved to be very resilient. Solvency is 201% despite all the noise out there and our top ratings have been confirmed.

What is more important, and Giulio will refer to that later is that you're not just need to look, please, at the level of solvency or capitalization, but the sensitivity of that capitalization relative to shocks. And as you will see later in Giulio's presentation, the shock sensitivity has been significantly reduced in 2022 to prepare us for this really uncertain environment.

Last but not least, for our shareholders, we have returned EUR 6.5 billion, lifting total payout since 2016 to north of EUR 38 billion and we still have a buyback program running. Now when you look at these numbers, you say, "Oh, that's all fine another record, against what background are we achieving this?"

Page A3, and I'm going to now go into the presentation, basically shows you 6 of the most important things, and there could be many, many more that we could decide that created lots of headwinds, again after COVID. Capital markets were in a 40 year mess, both bonds and equities significantly down and companies like Allianz that have affinity capital markets also through asset management, obviously needed to maneuver. Inflation -- hyperinflation is really affecting us, and you see the nervousness always in short term share price reactions on inflation, which, by the way, in my opinion, sort of -- we'll get to that later, dumbfounded, we have the war in Ukraine. Germany as our motherland is strongly exposed to elevated Nat Cat yet again, climate change is here to stay. We are fumbling around with it, but you see the effect stay in and day out. It's not just storms, but it's also earthquake.

The energy crisis because of the war and also fundamental underinvestment in Germany and Europe in diversification of our energy sources and still some fallout in the beginning of the year on Structured Alpha, which I'm going to speak about.

Now if we turn to Page 4. Despite all of this, again, the numbers I've already mentioned before, the results for the group have been extremely resilient. What is also important that all segments have strongly contributed. And there's always a question as Allianz too broad, too wide. You see again in 2022, how well the diversification between our 3 business segments is working. Property-Casualty to start with, had a very strong year, revenue growth of 12%, operating profit of EUR 6.2 billion despite the fact that we have significantly strength in reserves, also for inflation over the last 1.5 years, probably 18 -- EUR 1.8 billion -- 18 months, EUR 1.8

billion of additional inflation-related reserves alone, and we've also done that in the fourth quarter, just to make sure that we are well prepared for a prolonged level of higher inflation. And despite that, we have super strong profit.

Life and Health numbers are very strong. New business value is stable because the margin has further improved. It's something that we need to continue to do because of cost of capital in the Life segment is significantly higher today than it was 10 years ago. And despite that, we have an operating profit that is at record levels with 5.3%, and it also means that this segment is able to produce EUR 5 billion in operating profit on a regular basis, which very few people have thought possible just a few years ago.

In Asset Management, despite the horror year, revenues were very resilient, and we still are making more than EUR 3 billion in profit, EUR 3.2 billion for sure. Our margin has been very resilient, as you can see. But obviously, the companies have suffered from both a decline in the level of assets but also outflows, particularly in the bond side at the beginning of the year when people were fearful of the effects of very fast and strongly rising rates. And again, we believe that the rate environment is very insecure at this point in time. However, we have seen positive flows in the first quarter on the back of some more optimism in the bond market. And the operating profit contribution in the corporate segment has also been EUR 300 million better than our midpoint analysis.

So all segments have really performed well. And you see in the past few years, Asset Management has balanced the challenges in Property-Casualty, and now it's the other way around, which shows the strength of the portfolio and its resilience.

Let me now talk about Structured Alpha. And these are the only comments I'm going to make today against about Structured Alpha, it's very important that we talk about it because it's important in what we learn from it. But it's also behind us, so I don't want to spend any more time on it than what I just want to talk about now.

So the first thing is, what did we learn? And there are 3 main learnings. The first one when something like this happens, and you find you have cooks in the house that have damaged our clients, it is really important to remind ourselves what is our purpose, and we have to protect our clients.

The second one, it's extremely important to get a fast resolution of both legal and economic exposures because uncertainty damages trust and damages reputation. And so that was very important.

And the last one is as important is to reinforce tail risk management, especially zero tolerance on potential compliance exposures. We just need to recognize in Allianz, we trust our people and that is good, and we will continue to trust our people, but we need to have controls just in case that we have a bad apple somewhere in the house, and both have to be combined. And we also need to take care of the fact that things that we thought impossible just a few years ago because they would be so remotely possible, are actually happening, and we need to make sure that we don't really miss things that we have in the past considers to be very, very rare and remote.

So let me give you some facts to it. We have done a very swift and fair compensation of fund investors with more than EUR 5 billion and we have achieved a settlement with the DOJ and the SEC with a financial effects of $850 by the way, of which we already have another $130 have been used for investors. So what does that mean? It means we haven't spent billions and billions on fines. We have basically taken 90% of the money and handed it to our clients to compensate them for their losses in a very fair way.

Second, we took only actually less than 12 months from the start of the DOJ investigation to its resolution and 15 months only to do settlements with the vast majority of our U.S. investors, very important and very, very fast. And we have been working on the systematic strengthening of both the group and Allianz Global Investors safeguarding functions, and we will continue to invest very significantly and strengthening these capabilities globally, not just in AGI.

Now let's turn to Page A7. The message here is a very important one, not only is Allianz profit power very strong and resilient, it is also important that our efforts are paying out in increasing the growth rate of the profits, particularly over the last 3 years despite the effects of COVID. In fact, we have used COVID to revisit our issues and our programs and to accelerate the delivery. And you can see that very nicely on Page A8.

So in every segment, we have increased results of double digits, and I'll start at the bottom, asset management, despite the fact that we are down from the record year last one, 18% up relative to '19, Life and Health 12% up and Property-Casualty up 23%. And it's very important. Now our commercial business runs around 19% combined ratio. So we've really turned around not just AGC&S, but the whole commercial segment and will continue to drive the globalization of it to get better outcomes.

And the second thing that I'm relentlessly pointing out is we are bringing down our costs relative to our revenues in a systematic and continuous way. There are no one else, no firing programs on a sustainable way. And by design, we are improving the productivity of our global franchise. So that allows us in last 3 years to bring the expense ratio down by 121 basis points, again, to be continued, and this will not be a straight line, but we will continue to drive that because this is where the source of competitors has to come from by leveraging our global scale.

So at the group level, we increased OP 19% to deliver on a strategy that is long term and consistent regardless of what the external threats may look like. And you see that, again, productivity on the left-hand side, I showed 2 numbers because Allianz partners sort of imploded travel because in COVID, they're strongly back really gaining market share, by the way, not just top line, the leading player in travel insurance, but there has a very high expense ratio relative to premium. So that distorts that a little bit in the last 2 years. But what you can nicely see the consistent decline in the expense ratio is the outcome, but also on Life business profitability, even if they are short-term shocks or the Asset Management cost income ratio, we're continuously working on productivity and margin to strengthen our franchise.

Now if margin is not the only thing. Margin is actually, in my opinion, an outcome of the underlying value that we provide to our customers. So a bit crowded Page A10 is really at the core of the strategy and has been since 2016. The left-hand side shows what we really focus on, that's the Net Promoter Score, i.e., our customers' willingness to recommend our service and products to their families and friends. That's the most important sign of trust into Allianz and that has been continuously going up.

What you also see that we are not just outperforming relative to market average, but over the last few years, we are strongly improving the share of so-called loyalty leaders where we, in fact, have the best customer loyalty in the marketplace. And that's really the ambition that we have, and that drives 2 things: one, customer loyalty, i.e., we have higher retention, and we can grow more and we see that really clearly.

The second element that actually ties in that and it's just the other side of the same coin is the motivation of our workforce. That's on the right-hand side. And there are 2 KPIs that we use, and I know they are technical because they are not sort of consistent across with what we call the IMIX, which is how we measure the motivation of our people. By the way, both numbers Net Promoter Score and our employee satisfaction scores are audited. So these are not management numbers. These are audited numbers. And why are they important because they show the level of support that we have from our staff.

We reached in 2022 all-time highs, both on the work well, i.e., how safe people feel and how balanced is their working environment and how motivated they are by the company, and most importantly, we've really outperformed for the first time, the best-in-class benchmark that we have for our indices. And it's not just the internal view, but the external view the same, whether we are #1 in insurance, on diversity and inclusion, whether we are #1 on edge or whether on Refinitiv or many others. And the same is, by the way, true on the customer satisfaction side. Is everything perfect yet? Absolutely not. There's a lot more to be done. But these things are totally interrelated, and they pay into the middle box.

Since the year 2019, we are the #1 brand in the insurance universe and our brand value has been going up consistently. We're the #1 brand also in the Edelman Trust Barometer, we're the #1 brand in brand finance and so on and so forth, and that's reflecting the trust that we have from our customers and our employees.

Now in terms of a contribution to society, we all are focusing particularly on trying to make sure that climate change gets under control, and we have our own very tough targets on this one, whether that is carbon footprint of our proprietary investments, the carbon footprint of our operations or the use of renewable energy, which is going to reach 100% this year. All of our targets are super ambitious and we have been outperforming them over the last few years. And we continue to be highly committed to the climate change agenda in a consistent way.

So a balanced franchise is the one that we really look through and we really believe that in the world that we are living in, the balance also across these stakeholders will remain super important, and it's very hard to manage on an everyday basis.

Now let me talk a little bit about dividend policy, very important for our shareholders, and there is always a lot of excitement around dividend buybacks, we want to keep a very steady hand around what we have been doing, and that is very important. We have a 50% payout ratio but we are going to increase dividends at least 5% relative to the last year. And on top, we are flexible in terms of payouts via share buybacks if and when the opportunity arises and we believe we have lots of opportunity because of the current share price and investment in our shares is still a very, very attractive investment.

So you see what we've been able to do and our proposal for the AGM is to move to EUR 11.40 for the dividend. And you see the forecast. So it's going to be at least EUR 12 and then EUR 12.60 for the coming years.

To put that into perspective, I have the second to last slide that shows you the development of the dividend per share and the cumulative payout to shareholders over the last few years. For 2022, it's actually 79% payout ratio relative to net income. To be fair, net income was artificially volatile not just because of structured offer, that's actually a cash out, and that is correct to be there, but also the write-down we needed to take on Russia or the funny accounting regime we have on inflation accounting for Turkey and things like that. So there's a lot of accounting volatility that doesn't reflect actually the underlying strength in terms of cash flow generation which we are really banking on.

Now when you look at the numbers, and I'm getting to my last slide for today, Page A14, that shows you the 2022 actual versus the outlook. There are some changes we believe in a very strong development of Property-Casualty. It is something that we need to explain to the market a little better, I think, today, then the profit outlook for Life is more conservative at EUR 5 billion relative to where we were because there is a lot of volatility in the results potentially to come. So we are trying to be conservative, Asset Management, EUR 3 billion. Why? Because we have a much lower AuM level at the end of the year relative to the end of the year that we had in the beginning of 2022. And then corporate normalization, which is also correct. This has been the number for many, many years.

So we are having a very conservative outlook for the year. Now, how can I say that because we have something to compare to. When we had our Capital Markets Day in December '21, people said we were very aggressive with our numbers. Let's just compare. You have the numbers there. For 2024, the target was EUR 6.6 billion for P&C. So the outlook of next year is already higher than the one at the year after. The EUR 5.3 billion for '24 is the number we already had for '22. So that has a buffer in terms of potential volatility from rates and others. And Asset Management is a little bit more of a stretch relative to what the underlying outlook is, but I'm very confident that over time, rates will stabilize and flows will come.

By the way, we had net positive inflows already in January of more than EUR 10 billion. And again, the corporate is at the EUR 800 million. So the EUR 14.5 billion that we are having as an outlook is not really too far above where we are already for next year. And I'd like to remind everybody that the feedback from many of you, wow, this is an ambitious plan in '21. We're almost there already. So we are very confident for the future despite the fact that our environment is and remains tough. We don't believe that inflation has yet been brought under control. We are very worried about all the political instabilities, but your Allianz will be solid. Thank you.

Giulio Terzariol
CFO & Member of the Management Board

Thank you, Oliver. And now we can go into my part of the presentation. And as Oliver said, we had a very strong performance in 2022, we had indeed a record operating profit, and we had record operating profit after having a record operating profit in 2021. Also, our numbers for the year are EUR 80 million better than the outlook or 6%. So very strong performance in what was a difficult environment.

When we look at the revenue, the revenue adjusted for FX and also for consolidation are flat. But what we see here, it is a very nice development in Property-Casualty. That's exactly the area where we wanted to see growth, clearly, in an environment like this in the Life side and in Asset Management, the revenue growth is going to be more moderate. So that's not a surprise.

On the operating profit in Property-Casualty, we have EUR 6.2 billion of operating profit. If you remember, the outlook was EUR 6 billion. So we are ahead of the outlook. And also, we are 8% better compared to the prior period. And this is driven by a stable combined ratio despite the challenge coming from inflation, and we were able to capitalize on the growth and also on the higher interest rate levels, so very strong operating profit in Property-Casualty.

On the Life side, we had record operating profit with EUR 5.3 billion, and this despite an environment which was volatile, we could benefit clearly from the higher interest rates. And you see that in the operating profit and also in the new business margin with 3.8%, which is very much above our target of 3%.

In Asset Management, the operating profit is clearly below last year and also below the outlook, but that's not surprising considering the environment. So from that point of view, I would say, based on what we can control, we did a really nice job also in Asset Management. And then when you put all numbers together, we end up with this record operating profit of EUR 14.2 billion.

I can also tell you the quality of this operating profit is very strong. We set aside a significant amount of reserves in Property-Casualty to protect us against inflation in the case we see continuous or more elevated inflation in the future.

The net income is EUR 6.7 billion. Here, we have clearly the impact of Structured Alpha and also the impact from the disposal of the Russian entity. If you just adjust for these 2 effects, and I believe everybody is going to agree that it's fair to adjust for these 2 impacts, which are extraordinary. Our net income will be EUR 8.8 billion. So also in reality on the below the line if you just make some reasonable adjustment, you get to a very strong picture.

So overall, very strong performance in 2022, but that's even more important, we're very confident about how we are positioned for 2023 that's the most important message because at this point in time, we're looking forward, we're not necessarily looking backward. Page 5, that's about the operating profit for the quarter and other key KPIs. We had EUR 4 billion operating profit, so a strong finish.

Clearly, here, we see the impact coming from the Life business with EUR 1.9 billion. I'd like to say that clearly, this number is exceptional for the quarter but here we have a lot of catch-up effects coming from the preceding quarters. Basically, in the preceding quarters, we didn't adjust our assumption for the higher interest rate level, and this adjustment has been done in for the quarter. We wanted just to wait for the end of the year to make this kind of a technical adjustment. And so basically, yes, it's a high profit for the quarter, but that's not necessarily high profit for the year when you look at the Life performance. Otherwise, in Property-Casualty, the operating profit of EUR 1.5 billion is basically in line with the outlook of EUR 6 billion divided by 4. We had some level of conservatives in the year-end book in order to protect us against possible inflation, but that's indeed a good sign of quality. And then in Asset Management, the operating profit was relatively stable compared to what we saw in the preceding quarter.

So at the end of the day, very good 2022 with a very strong finish with EUR 4 billion of operating profit in the last quarter. Now, we come to Solvency II. The Solvency II ratio has improved by 2 percentage points. What -- now we are standing at 201%, what is even more important is the development of the sensitivities. We told you a few months ago that we wanted to bring down the sensitivities to the equity markets to below 15% -- percentage point. And now we are -- it's minus 13 percentage points. So this tells you that we have ability clearly to manage our solvency ratio.

And when you look at the other sensitivities, you're going to see that they are much reduced compared to what we had a year ago. So fundamentally, when you look at our solvency ratio, you look at the stress test the solvency ratio, we are definitely in a way better position compared to 2021, and we feel very comfortable about the level and also the amount of sensitivities that currently we have. So that's a very strong story on the development of our solvency ratio, the resilience of the solvency ratio.

At Page 9, we are showing as always a waterfall. What is important here, every year, we're getting a pretty reliable contribution to our solvency ratio from the operating earnings. This means that if you put that 27% after tax and after dividend, we're getting between 8 and 10 percentage points of solvency generation per annum. So that's a very good basis. And then as I was saying before, the sensitivity are reduced.

In 2022, the sensitivity to markets have been negative. If we have, again, a negative market condition, we're going to see less sensitivity of our Solvency II ratio moving forward. And I dare to say that the sensitivities cannot only be negative. We're going to see also in some cases, positive sensitivity. So from that point of view, I think that right now, we are not at the peak of the market. We are at in a situation, which is a little bit on the downside. So fundamentally, from that point of view also, we have a solvency ratio 201 with a good level in a market environment, which is a little bit down and not necessarily at a record level. So that's from a solvency point of view, a very comfortable place to be. And also the key message is sensitivities are reduced, and we can also actively manage this sensitivity also moving forward.

On Page 11, now we turn to our P&C business and to the growth in our P&C business, as I was saying before, internal growth is very high. It's basically almost at 10% level. What is very good in this slide is that basically almost all companies have contributed or all companies that contributed to this growth rate. So that's a very important point. And that's also the reflection that we have been managing against inflation, the majority of the increase in premium is coming from price effect. So from that point of view, you can see here a strong management of inflation. And there was also an acceleration of rate increases during the year.

So that's a very strong picture that should give you a lot of comfort about our ability to manage inflation.

Page 13, on the operating profit, you can see increase of the operating profit in the Property-Casualty segment of about EUR 500 million. This is mostly coming from the investment side. But as you see, also the underwriting results improved a bit. Here, we see that the combined ratio was relatively stable over the prior period. The Nat Cat load was slightly below, the expense ratio without the adjustment for Allianz Partner was a little bit higher because of the mix effect. So the 2 components have more or less compensated each other. And then we see clearly that the runoff has been more positive, which indicates that the attritional loss ratio was by about 2 percentage points.

Here, that's very important to realize 2 things. First of all, we set also some good level of reserving for inflation aside, but also we had a significant amount of what I call recycling, which means some companies have released runoff, a positive runoff but on the other side, they have also bought a very conservative accident year. Just to give an example, just if I adjust for what Allianz trade has done, the runoff of the group will be 1 percentage point lower, but this means also that the accident year loss ratio will be also 1 percentage points lower. So I want to give you a sense about this dynamic.

And then on the combined ratio by segment, clearly, you see a little bit of an increase in retail. That's a consequence, clearly of the inflation that we saw coming through especially in the Motor segment, we are still in a good level, 96% and again, a quality level. And then we see very good performance in Commercial lines with 90%. I think everybody has seen the good results of AGC&S and also of Allianz trade, which is part of Commercial, but I want to highlight that also in MidCorp. We had a very good combined ratio, actually, the 90% level for the year. So it's not just about the AGC&S performing or Allianz trade performing, that's also a very good performance in MidCorp.

I think you remember that just a couple of years ago, Oliver said, this is a key priority for us to get better performance, MidCorp, and as usual, you can expect us to deliver what is a very important. It's been a very crucial point for us.

Now, coming to Page 15 on the operating profit, good growth of 8%. You can see also when you look at the combined ratio that we have a lot of companies posting very good combined ratios like Germany with 91%, France with 96.6%, Italy 89.7%, Australia 93.3%, then I can go down the list, you can see a lot of good combined ratios.

There are a few exceptions. As always, one will be the U.K. or also Spain here, I want to say also when you look at the competitors, you are not going to see better numbers. In the case of the U.K., we even believe that our numbers are slightly better compared to what you see there.

So fundamentally, there is nothing [indiscernible] currently to Allianz, that's a refresh of the environment. And we are also very confident that we are going to see an improvement. So the bottom line here is a lot of companies performing very nicely. We have reacted very well to the inflation challenge. A couple of companies have been struggling, but we know that we're going to see better performance in 2023. So that's also a driver of the improvement that we're going to see in our operating results this year.

Now coming to Page 17 on the investment results. You can see a nice increase of the investment results of EUR 400 million. This is basically driven by the change in the investment, in the interest rate environment. What is kind of interesting here is to see the swing in the economic reinvestment yield, that number was 1.4% in 2021, and this number is now 3.1%. If you look only at a stand-alone quarter, the number is 4%. So this stays a little bit about the kind of additional investment and that is generating in the pipeline.

So bottom line on the Property-Casualty side, EUR 6.2 billion of operating profit, which is 8% better than prior period is also better than the outlook. And most importantly, we are well positioned for 2023, considering that we have been really taking care that our balance sheet is very, very strong, and I believe the inflation reserve that we booked is going to protect us in the case there is high inflation or it might even be a positive for us in 2023 or '24, if inflation is going to stay the current level is not going to surprise us with additional increases.

Now coming to the Life side. Very strong new business margin with 3.8%. And as you see, all segments had an improvement in the new business margin. On the Production side, you see a clear decline of 17%. Here, you have to say that there were some one-offs in 2021. So if you adjust for the one-offs, the real reduction growth rate is more like 8%, and that's also more consistent with the number that you saw before regarding the statutory premium. That's not surprising considering that in an environment like this, the production unit linked is going to be lower and also single premiums are going to be lower from that point of view, no surprise.

And also very important in the Life business, the production of a single year is not really relevant. It's more about the stickiness that you have in the total assets under management, so from that point of view, we've seen production on the Life side are in the short term, something normal and also they don't really affect the performance of the business.

Now coming to Page 21. The operating profit has also increased significantly. And as I said before, that's a record operating profit. You can see that there was a nice dynamic in protection health and also in unit-linked without guarantees, part of this dynamic is also explained by the consolidation of Aviva, but it was also especially in protection has some organic development Otherwise, you see a nice resilience in the capital-efficient products and in the guaranteed savings and annuity, so overall good development, the operating profit also thanks to the acquisition of Aviva where the integration is proceeding well and according to expectation.

Now coming to Page 23 and speaking about operating profit, you can see that Allianz Germany has again reliably delivered on the operating profit. In the case of the U.S., you see a little bit of a -- or a significant drop, if you want, but that's more because 2021 was exceptional. In reality, the performance for 2022 is very much in line with our expectation. And then as I was saying before, you see also in Eastern Europe, an increase due to significant increase due to the consolidation of Aviva.

What I like in these slides is the development of the new business margin with 3.8%. And also, you see basically an improved new business margin across almost all companies, and this is clearly the reflection of the work that we have been done on our product range to make sure that we get to very strong margin.

My favorite slide is Page 25, where we see basically that the investment margin in 2022 is very stable at a very healthy level of 85 basis points. But even more important is the composition of this investment margin. As you see, the current yield, which is the current reliable yield we can count on, has went up by 18 basis points, and the guarantees are continuously going down. Again, in 2022, we brought down the guarantees by 11 basis points. So in total, we have 30 basis points more spread between current yield and the guarantee element. So that's really good for the profitability and the resilience of the business, and this is clearly a consequence of all the work that we put over the last years in managing the in-force business and managing the new business. And clearly, here, we are now also benefiting from the increase in rates, which means in 2023, we are going to expect to see even a better picture.

Unfortunately, we are not going to add these slides with the change to IFRS 17, but just logical to expect that the current yield is going to go up, and the guarantees were continuously going down based on the actions that we are taking and based on the environment we are in.

So very strong performance on the Life side, also here, considering the action taken the environment, we are very well positioned as we look into 2023 and beyond. Now, we turn to Page 27 that's about Asset Management. And here, we see clearly that there was a significant drop of the assets under management of about 18% if you include the proprietary assets of 17%, if you exclude them. So that's clearly the reflection of the market environment.

I'd like to highlight anyway that part of our strategy is to grow the alternative business. And in that area, you see a growth rate of 15%, just to give you a sense because you don't measure your strategy in a quarter, 12 months, you measure your strategy across a longer period, that EUR 82 billion of alternative volume was only 46% in 2020. So we put a clear focus on growing the alternative. And you can see how within 2 years, we brought that number from EUR 46 billion to EUR 82 billion. So that's another sign of our ability to execute on the key initiative for us.

Page 29 shows the development of the third-party assets under management. As we discussed already in the prior quarters, clearly, from an inflows point of view, has been tough with outflows, especially at PIMCO that's not surprising considering the profile of PIMCO as a fixed income manager. And also, clearly, we were on the receiving end of the market development. On the other side, we benefited a bit from the FX.

If you look at the right-hand side, you can see that in the more commodity strategy, there was a reduction, but if you look at multi assets and alternatives, again, you see that on those strategies, which are a little bit more of a value-add strategy, you see a positive inflow. So that's a sign a little bit that, yes. It's been a challenging environment but from a quality point of view, we have achieved a good mix.

Now coming to Page 31. The revenues are actually a little bit more resilient compared to what you saw on the assets under management. And the reason is revenue are a function of the average assets under management during the year. So if you look at the average assets under management of 2022 versus 2021, you are not going to see the same drop like when you do the point-to-point calculation. On top of it, the fee margin has been stable in the case of PIMCO, even increasing. When you look at AGI, you see a decrease of the fee margin, which is mostly driven by the Voya transaction. But overall, for the segment, you see a stable fee margin, which is also clearly very important.

This leads to clearly some drop of the operating profit compared to prior period. If you take the total operating profit, you see a drop of 8%. If you adjust for the performance fees, the drop is 5%, which is kind of in line with the revenue drop, and then there is always some operational leverage on top. So overall a 5% reduction.

The cost-to-income ratio, 61.2%, is higher compared to 2021. But I'd like just to highlight that in 2020, that cost/income ratio was also 61.2%. So from that point of view, we also know that 2021 was pretty strong. 2022 has been relatively weak. If you just compare to 2020, you see basically a stable operating profit.

I'd like to highlight here the performance of AGI. The company has gone through a lot, and they have achieved an operating profit of EUR 755 million. It might not look great if you compare it to 2021, but it was really nice compared to 2020. In 2020, operating profit was just a little bit higher than EUR 600 million. So overall, in 2 years, the compounded average growth rate of AGI has been 10% per annum, and that's a strong achievement. And honestly speaking, somebody had told me in 2020 that AGI is going to produce EUR 755 million of profit. By 2022, I would have said this is very challenging to achieve, and our colleagues at AGI been able to achieve really something, in my opinion, remarkable.

And now with that, I'd like to go to Corporate segment, where we had improvement of the performance in the Corporate segment. This is mostly driven by the change in the rate environment. Also, we got some more dividend from the participation that we hold in this segment and also we benefited from the fact that we are holding also some inflation-linked bonds in order to protect our numbers from the increased inflation. So overall, good results out of the Corporate segment.

And now we come to Page 37. The net income was EUR 6.7 billion clearly, as we had a very strong operating profit on the below the line we had the impact of Structured Alpha, which is about EUR 2 billion pretax. This is coming from the first quarter. And then also, we had the impact from the disposal of our Russian entity of more than EUR 400 million, and also in an environment like this, it's more likely that we are going to pick up some additional impairment compared to a normal environment. But as said before, if I adjust the EUR 6.7 billion just for the Structured Alpha situation and also for the Russian disposal, the net income would have been EUR 8.8 billion, which is a better reflection of the level for 2022 on a normalized level would have been.

And for these great results because again, I think the performance has been really, really nice in 2022. I'd like to thank, as always, our employees. And now I'd like to have a couple of comments on the outlook.

The outlook is EUR 14.2 billion, you might have realized that we have a tradition basically to put the outlook for the year at the level of the operating profit of the preceding year. So that's basically a little bit what we do here. And the message that we are trying to send is also that from an operational point of view, considering the strength of our franchise, the strength of the operating model, we are very confident in reality that we should at least achieve the results of the preceding period and indeed be better than we need always to consider also, that's the reason why we had this range of plus/minus EUR 1 billion, the market condition can always be very tough. There could be more Nat Cats. But fundamentally, the idea is on what we can control. There shouldn't be any doubt that we should be on the upper half of the midpoint, but then based on the market environment, you never know, we might end up also below.

With the EUR 14.2 billion, we feel that we have a conservative outlook, which means very, very solid from this point of view. And just to give you an idea, in Property-Casualty, we are targeting a EUR 7 billion of operating profit, just based on the growth that we should achieve based on the income -- investment income, they should be higher compared to 2022 and also based on our ability to manage inflation, also based on the strength of our balance sheet, we have a very high degree of confidence that we're going to at least to achieve this number.

On the Life side, also, as Oliver was saying before, EUR 5 billion is a number which is more than reflective of our economies. Here, we have just some uncertainty because of the implementation of IFRS 17, but fundamentally, we achieved more than EUR 5 billion of operating profit, both in 2022 and 2021. Just to give you an idea, in the case of Asset Management, we are cautious because of the environment, we can say that January was positive. We saw EUR 10 billion of inflows in PIMCO, [indiscernible] AGI and also the markets have been up, so at least the beginning of the year it has been rather on the positive side, but we are just at the beginning. So from that point of view, we are starting with an assumption of EUR 3 billion of operating profit. And then in corporate, definitely on this segment, we are definitely on the conservative side. Just to remind you, we had EUR 500 million of operating loss in 2022. There is no reason to believe it's going to be significantly worse in 2023.
So overall, EUR 14.2 billion of outlook. That's a tradition to say the outlook equal to the profit of the preceding year. If you look also at tradition, we have basically beaten the outlook every year over the last 10 years, except for the COVID situation. So this gives you a little bit the idea of what you should expect in 2023. And with that, I like to open up to all the questions you might have.

Question and Answer

Lauren K. Day
Head of Group Communications & Reputation

Thank you so much, Giulio. [Operator Instructions] So we now take our first question from Alexander Huebner from Reuters.

Alexander Huebner

First following up on what Giulio just said on the outlook. In what extent does this change to IFRS 9 and 17 have consequences for your outlook. There are some competitors that gave more or less concrete number, how big the gap is between the current system and the future system. So what component does IFRS 17 have in your outlook?

And the other one on what Oliver Bate has said, I remember in or shortly after the COVID outbreak, you said Allianz would probably need 30% less real estate for housing your employees. Has this -- has your view changed on that? Or what's the policy regarding home office and all the like, will we be back to what has been before COVID or yes. So frankly said what's your point on that.

Giulio Terzariol
CFO & Member of the Management Board

So I can pick up the first question, which is about the outlook. First of all, clearly, this outlook is based on IFRS 17. The difference between this number and what the number could have been on the IFRS 4 is actually 0. So the outlook would be the same. Here from a technical point of view, yes, on the Property-Casualty side, new accounting helps a bit because you have a discounting impact that in this current environment is positive. We just recognized in reality just a little bit of the positive impact.

On the other side, on the Life side, there is the classification from operating profit to nonoperating profit. The 2 things are more or less offset each other. So the answer to your question is that the outlook of EUR 14.2 billion would have been the same also on the old accounting basis. Also keep in mind that we set the outlook basically at the level of the preceding profit. And then you had a question for Oliver, on the real estate.

Oliver Bate
Chairman of the Management Board & CEO

So it's a very interesting question. We have decided and I'll get to the real estate point in a second, that we want to leap forward, we have a very, very ambitious rule that we are established as a pilot for now with our workers' council partners, which is called Way of Working in Allianz. So the teams have to be in the office one day a week together. The rest is up to them. And that is predicated on 2 facts. One, that customer satisfaction is strong, remains strong and improves and the other one that productivity doesn't suffer. And that's proven to be highly successful for the vast majority of places. Obviously, there are some job groups like cooks and others where it would not make sense to work from home unless you want to ship the food.

But we are seeing now also a trend back to the office. I still believe that over time, the required real estate will go down and with flexible workplaces, and we are in the discussion with our social partners on that, how do we do desk sharing will become a lot more efficient over time. And then maybe some of that space that is currently commercial can be transformed into apartments because Germany needs more apartments, and not just Germany.

Lauren K. Day
Head of Group Communications & Reputation

Have we answered your question, Alex?

Alexander Huebner

Yes. Thank you.

Lauren K. Day
Head of Group Communications & Reputation

I'd like to acknowledge Michael Flämig of Börsen-Zeitung.

Michael Flämig

I have 3 questions, please. The first one is a very general one. What is the biggest risk for Allianz in the current year? The second, the return on equity in Life has fallen from 30% to 11.2%. You, Mr. Bate, mentioned that the cost of capital has increased over the past 10 years. What does Allianz have to do to reach 13% again. And Mr. Bate, you mentioned the payout ratio for dividends and share buybacks. It's almost 100%. What level is really sustainable in the long term?

Oliver Bate
Chairman of the Management Board & CEO

Yes. All great questions. And let me start with the last one. Obviously, you want a sustainable payout ratio that is more 60% to 70%. We have room for investments in organic and unorganic growth, by the way, if we have -- get better and better with organic growth, I'd like to sort of have the payout ratio where it needs to be relative to what their more attractive investment is. And I'm actually acknowledging the markets desire for share buybacks, but I'm also saying the best thing should be investing in our own company. For that, we need the right return. So that's a nice lay over to the ROE question, Giulio Terzariol will give you the details of where the number is for this year. But in fact, we need to bring the return on equity in Life further up because it has been too capital consumptive. And investors hate it and if they stay -- the lower returns, but more importantly, the high volatility of the solvency numbers.

And as you see, we are consistently working on it, bringing the sensitivity down. We have done project Lucy at the end of '22 in the United States, is now showing nice improvement, and we need to do the same in all other business, and there is no -- none to be excluded.

Now whatever the mechanism is whether that's a reinsurance transaction that is taking a portfolio out, but we will be relentless in terms of doing in the back-books, what we've been doing in new business i.e., making it systematically more resilient, and I think that's really important. Because, again, the cost of capital for large and volatile balance sheet is just too high. Now the good news is, Mr. Flämig and this is a lot of what a lot of people don't know or don't see really look at. And we've demonstrated that with Project Lucy, where we sold the book that was probably, if you had traded in the market, it would trade below book, we sold it for 2x book. Through the reinsurance transaction, we can do this everywhere and our revenues didn't go down. Why? Because we transferred life insurance earnings into asset management earnings.

So the overall profitability for the group didn't go down. We didn't really lose much in terms of earnings. Why? Because we can structure these elements with partners in a way that brings the earnings back as asset management fees, which have a much higher PE than life insurance earnings. So just to explain the story. And we will not give up, we will just accelerate this movement. Now the environment needs to be right. And remember, 2022, there was a wall, there was a crash in the market, so you need to have the timing right. But the effort will be unabated. Giulio, do you want to give some details on the ROE?

Giulio Terzariol
CFO & Member of the Management Board

Yes. I can give some details. First of all, the ROE of 2021 was -- had a positive impact because of the Lucy transaction. It was a one-off gain, so the reference basis is more the 2022 number. Here, we need to understand 11.2% is a little bit low because we don't have a full benefit coming from the Lucy transaction, the ROE is based on the average of the net asset value at the beginning of the year and end of the year. And since the effect of the Lucy transaction took place basically in the course of 2022 from an accounting point of view. In reality, you need to adjust 11.2% to 12%. So that's the starting point for our ROE.

As you remember, in the Capital Market Day, we said -- and this is also according to plan. That's also very important. In the Capital Markets Day, we said that we want to go to 13%, and that's the idea. And just to give you an idea, an improvement is going to come also from the Aviva acquisition. As you know, every time you do an acquisition, you have first a dilution effect on the ROE and then you pick up clearly performance down the road.

So from that point of view, we are starting from a 12% ROE. We want to go to 13% ROE just because of the Aviva transaction we're going to get there. Now I have news for you with the change to IFRS 17, the ROE is going to be anyway on the Life side, significantly higher, but based on the old accounting standard, we are well on track to achieve our 13% ROE by 2024.

Then you had another question, which was on what is the major risk for Allianz. Operationally, I don't see, honestly speaking a lot of risk. I think we have a really very strong action in place, both on the P&C side, Life side and also Asset Management side. So it's all about as always, what can go wrong from an environment point of view. And again, if you see a combination of things like lot of Nat Cat and also significant market dislocation. So if you see a combination of things going in the wrong direction that could be clearly a bit of an issue. I'd like just to say anyway that in 2022 where the markets were very challenging, and the Nat Cat load was more elevated and our expectation, we still made a record profit. So from that point of view, you need to take a lot of volatility, both on the Nat Cat side and also on the capital market side in order to have a meaningful impact on our operating profit.

Oliver Bate
Chairman of the Management Board & CEO

I think it's very good, what Giulio said. So it's a combination of external shocks that we need to worry about.

Lauren K. Day
Head of Group Communications & Reputation

Our next question will come from Abby Wood of Insurance Insider. Abby. The next question will come from Stephan Kahl of Bloomberg.

Stephan Kahl

3 quick questions from my end. First of all, you already give us some flavor how the flows developed at PIMCO saying inflows in January. Just wondering, did you see this trend continue into February. We are halfway through February. So I was wondering about that.

Also, you booked the EUR 400 million for selling your -- or most of your Russian business. On the regulatory side, are you making any progress on closing this deal anytime soon?

And the last question, sorry about that, but it's on Structured Alpha. In the presentation, you say you reached settlements with most investors, that kind of, let me ask myself, what do you still need to settle? Maybe just a couple of words on that.

Giulio Terzariol
CFO & Member of the Management Board

Yes. I can pick up the question. Maybe starting from the last one on the Structured Alpha, when we say vast majority is really like 99%. So it's a very tiny amount. And also from a financial point of view, we have clearly a good provision for that. So basically, fundamentally, the issue on the settlement is resolved for the -- yes, with this just minimum remaining exposure, but fundamentally consider that as a result.

Then you had a question on Russia. Basically, from our side, we did all what we had to do. So now we are just waiting for the final approval from the regulator. I think there are different instances of approval. So we already passed a few instances, and now we are just waiting for the final one. But from our side, we have completed our procedure that we had to do.

And then on the flows of PIMCO, look, I personally don't follow the flows of PIMCO on a weekly basis. I know the flows of PIMCO for January, and I intend to believe that also in February, we are seeing positive flows, but it's not a KPI that I'm tracking on a daily basis. I think it's also important, honestly speaking, because it's more about the strength of the entire franchise whether we're going to have a week with positive flows or negative flows. This is really -- there will be a little bit of diminishing of the strength of the entire business model of PIMCO.

Lauren K. Day
Head of Group Communications & Reputation

The next question will be from Tom Sims of Reuters. Okay. We can't hear you, but you also e-mailed me your question, so I'm going to read them verbatim. Your first question was, to what extent are you satisfied or dissatisfied with capital rules for alternative assets and the way that they impact investments in the green transition. Is there anything going on behind the scenes in an effort to loosen regulations enabling companies like Allianz to pour even more money into green transition topics. That's question one.

Oliver Bate
Chairman of the Management Board & CEO

Yes. It's a very important question. But you have regulators and you have regulators. What do I say? So you have the governments and the institutions that have regulation, and they actually are putting very onerous capital charges on infrastructure. So it would be great if the people that do the regulation, talk to the government's departments that want us to invest more because the capital charges we are having are very, very high despite the fact and people always talk about liquidity and liquidity risk for the vast majority of books that we have, there is no liquidity risk because we have very long duration liabilities that we are matching.

So the second thing, you also have rating agencies. And I have to say there is also a very, very high capital charges on alternatives. So even if we get some relief on things like Solvency II, we also need to acknowledge that for AA-rated company like ours, it's very hard to invest because capital charges are super high, and sometimes not even rationally explainable at least for me, and I've been the CFO before. So we need to have all regulators, including the rating agents, talk about why that is, if society wants and it should want us to invest more into the green transition.

Lauren K. Day
Head of Group Communications & Reputation

Perfect. And the second question from you, Tom, was, what is your expectation to remain at the helm of Allianz as your current contract nears and end? Do you expect to stay on? Have you received some assurances about a renewal?

Oliver Bate
Chairman of the Management Board & CEO

But we'll leave that when time goes by, I'm here at least until next year, and let's all be surprised.

Lauren K. Day
Head of Group Communications & Reputation

Thanks, Tom. I hope that answers your question. The next question will be from Herbert Fromme from Süddeutsche Zeitung.

Herbert Fromme

You stressed the portfolio distribution and its benefits for Allianz. Is that a reaction to pressure from investors to split up the group?

My second question is where does Allianz go from here? It's always more of the same, more dividends, more share buyback, more premium. Is that the case, whereas the fantasy in the stock and in your policy?

My third question, after your successful reinsurance transaction with your U.S. Life book, do you consider something similar for Germany for the German life book, which is huge and old?

And finally, in the Structured Alpha case, you mentioned in discussions with employees, which were on that famous video that you felt discriminated against that you wouldn't have been find the same way if you had been an American company. With that in mind, did you consider going to the court? And you move compliance to Mr. Terzariol's department was that a consequence of Structured Alpha and what other consequences did you take internally to prevent something similar happening again.

Oliver Bate
Chairman of the Management Board & CEO

Diversification benefits, no, we don't have any pressure to separate the company at all. The question is always, if do you have a very large company, are there really synergies? And we have lots of them including the one that you are alluding to, but you're seeing more and more of that in terms of a stronger growth in profits and declining expense ratio across the board, systematically like in no other company over these periods, improving new business margin like no other company systematically. So that's really important. The fantasy is very interesting. I'm not in fantasy land. But what we are really proposing to people is a really strong performing company that continuously grows, and I think that's the most important thing that we have to do.

And then ideally, that leads to your later question, no negative surprises. So indeed, we need to take the lessons learned and make sure that the risk management gets improved further. And what I mean by that, we have always had very strong risk management on financial KPIs. So interest rate sensitivity, managing equity markets, and so -- but we also need to recognize that operating risk, the risk of people behaving that the IT works, we can certainly improve further, and we will improve further.

In terms of the question of what are we going to do on the life insurance side and what how it affects that, I can be very clear. In terms of driving up, as we discussed in earlier questions, the efficiency of capital allocation on the Life side is everywhere, and that also includes Germany, everywhere, and that's the largest book. Now what mechanism we use in order to derisk the balance sheet, to leverage capital better, to get risk capital consumption, there is a lot of tools that can be deployed in order to do that. But there are sort of no circular cows, we just want to make sure that the promises that we give to our customers that they have a product that gives them security and a proper return is being upheld.

Herbert Fromme

Can I come back with one further question? Sure.

Lauren K. Day
Head of Group Communications & Reputation

Sure.

Herbert Fromme

Now market cap is about EUR 86 billion right now and -- with the revenue of EUR 153 billion. Microsoft has EUR 200 billion revenues in dollars annually but their share price is 20x U.S. So how does Allianz make investors feel that it's a stock worth investing in for the long-term future, like they do in Microsoft.

Oliver Bate
Chairman of the Management Board & CEO

Yes, that's a great comparison. And I also own Microsoft, but we are actually a different animal because we propose to companies that they have a very stable return, even if you take the recent share price bounce back in, the dividend yield is 5.3%. So just out of dividend, you get more than you almost have from any other cash-paying instrument. And we have had to go through the Structured Alpha. I think the valuation of the company will improve, but we will not get to Microsoft because the underlying growth in our business model in our industry is unfortunately not tech.

There is, however, a great question embedded in what you're asking, in my opinion, Mr. Fromme, and that's the point around how do we improve capital efficiency? Because one of the key drivers of price-to-earnings is the capital intensity. So -- and as we discussed earlier, we need to bring the capital intensity down over the next few years, particularly again in the Life side, but also in the volatile elements of Property-Casualty because traded markets have a very high cost of capital for the businesses that we are in. So we really need to strengthen the fee businesses and reduce the capital-intensive businesses that don't earn a proper return on it.

And so there is -- if you want to go back to your fantasy question, there's the upside.

Lauren K. Day
Head of Group Communications & Reputation

We have nothing further to add on the Structured Alpha question, but if there's any confusion, Herbert, I'll follow up one-on-one, given how far behind us in the rearview mirror it happens to be. I'm going to come back to Abby Wood's question from Insurance Insider who writes what has been the impact from the reinsurance renewals in early January? And can you give more details on your plans for growth in 2023?

Giulio Terzariol
CFO & Member of the Management Board

Yes. [indiscernible] the reinsurance. So basically, clearly, there was a hardening of the reinsurance market, which was not a surprise to us. We knew that the renewal of 2023 is going to be more interesting compared to what we saw in the past. I can tell you that we were able to place the program according to the structure we wanted to have. So there is no change to the structure that's very important because we know that some other companies couldn't place the same structure.

Clearly, you need to make some concessions sometimes on the capacity and the price has been higher, but that was all according to our expectations, so there was no surprise for us. And from the point of view of basically everything was incorporated in our business plan. So same structure, some concession on capacity, also higher pricing, but it's everything incorporate in our place. So I would say not a big event for us. But definitely, I can confirm that the environment has been more challenging compared to the renewal of 2021 of the preceding years.

From a growth point of view, clearly, as we are -- there are 2 sources of growth as we think about the Property-Casualty segment, one is going to be just price increases that we're going to get in order to offset inflation, but we have also a lot of focus on growing the customer bases and to that exchange, we are putting program in places, which is about reduction of churn and also increase in cross selling, whether these initiatives are going to have any influence already in 2023 or 2024, this remains to be seen, but there's a strong focus that we have on customer growth.

We're also putting emphasis on growth in MidCorp, that's the reason why we're also somehow changing a little bit the structure because we believe we can come to the market with a more coherent and consistent value proposition. So that's something where we believe we can get growth. Why now and not before? Because first, we wanted to make sure that we had the right level of profitability, combined ratio, technical excellence, and now we are at a point where we believe we can really also look for some more growth, and that's the reason why we're looking at little bit of more consistency in the way we are getting to the market.

And then in the other segments, on the Life side, we are super well positioned. We have very strong companies with great distribution. So at the end of the day, it's more about the market environment. If the market environment is going to be stable, you're going to see definitely nice growth coming in Life. And in Asset Management, clearly, also, [indiscernible] market. But on the Alternative, this is really a focus that we have. As you saw, even in 2022 in a challenging environment, growth or the inflows in multi-assets and in alternative were positive. So this is going to remain basically a core focus for us, how we can increase our presence in those kind of strategies.

Lauren K. Day
Head of Group Communications & Reputation

Thank you. And I hope Abby, that answers your questions. Our next question will be from Ben Dyson of S&P Global Market Intelligence.

Ben Dyson

Yes, I just had a question, first of all, about inflation. I mean I think Mr. Bate, you mentioned that inflation, you booked EUR 1.8 billion of reserves for inflation over the past 18 months and that you also made some bookings in the fourth quarter. So I was wondering if you could say what you've done there in the fourth quarter specifically and whether that was a reflection of an inflation or the impacts of inflation on claims getting worse, particularly on the retail side or whether you see that improving. And yes, just your overall sort of, I guess, outlook on the inflationary impacts on the Life side?

And then the second question I had really was just on the earthquakes in Turkey. I think Allianz is one of the biggest life insurers in the country. So just wondering if you could comment on the potential impact to Allianz from that -- from those terrific events.

Oliver Bate
Chairman of the Management Board & CEO

Yes. So I can pick up these questions. On the inflation in the fourth quarter, basically, the impact on the combined ratio or loss ratio from the reserve for inflation that we put into the books is about 3 percentage points. And yes, there is no specific reason now that clearly we want to be prepared for inflation where you have a record profit of EUR 14.2 billion that's where you think about the future. So from that point of view, there was -- we had enough profit that we could really think about how we make our balance sheet, which is very strong, even stronger. So that's what I want to say. So it's a very good position to be in. Let's put it this way.

Regarding the earthquake in Turkey, Okay. Maybe first, I address the financial topic, but then the more important things to say about the earthquake. From a financial point of view, the impact for us might be between EUR 50 million and EUR 100 million. And as you see, considering the size of our overall footprint and considering that we expect a Nat Cat in a quarter that's financially not an issue. Clearly, the point is different. We are speaking a lot of victims. So indeed, our concern is more about the humanitarian aspect of the situation. And I want to say we are not just concerned about that. We're also doing something that's very important. As you said, we have a strong presence in Turkey. We have done a donation. Also, we have mobilized our resources in Turkey in order to be able to provide assistance to the local population. So I would say it's more about what we can do to help the people in need at this point in time and the financial impact is a secondary consideration, which is totally manageable.

Lauren K. Day
Head of Group Communications & Reputation

The next question is from Ed Frankl of Dow Jones.

Unknown Analyst

Yes, I just have the one question, which was about Allianz's combined ratio. It worsened last year in 2022. How important was Motor claims inflation to that? And what is the outlook generally for higher Motor claims or Motor claims inflation going forward into 2023?

Giulio Terzariol
CFO & Member of the Management Board

Yes. So first of all, yes, so clearly -- so there is some slight deterioration but I want to reiterate. You need to consider also for the level of conservatives that we have used, but there was some deterioration coming clearly from the Motor books. We feel very well positioned as we go into 2023, first of all, because we have put this reserve aside. And also because the rate increases that we see are pretty strong. You need always to consider that when inflation is kicking in, right? And inflation basically kicked in, in the course of 2022. You're going to have part of the business under it in 2021 flowing into the NPE of 2022. But as you reprice the business in 2022 and the reprice has been stronger and stronger, then by 2023, you are going to be in a very good position. So if you ask me, we are well positioned on the accident year for 2023. And also, I will say we have really put something aside that is going to protect us from any surprises.

One of the reason, by the way, of entity where we saw most of the challenge was U.K. We are not alone. So we have a lot of companies in the U.K., which are now posting great results, which means from that point of view, the entire market is reacting. So the bottom line is we feel very good about where we stand now regarding 2023. And as you see, our outlook is EUR 7 billion of profit for 2023. And we believe that we are going to be fine compared to that outlook.

Unknown Analyst

So can you give more detail on what your concerns in the U.K. are.

Giulio Terzariol
CFO & Member of the Management Board

Have you see in the U.K., the combined ratio has been pretty elevated, right? Maybe you seen the red line and other companies. So in Motor, there was significant increase of the combined ratio, which was widespread. That's actually because -- it's not good, but it's positive in the sense you don't want to be alone, right? If you are the only one having a problem, then it becomes a little bit of an issue, if the entire market has to reprice. And now we see rate increases, which are 20%, 30%, then this is clearly very promising for the recovery of the profitability of the business.

Lauren K. Day
Head of Group Communications & Reputation

Does that answer your question?

Unknown Analyst

Yes, that's good for now.

Lauren K. Day
Head of Group Communications & Reputation

And Alexander Huebner, you're still in the queue. Was there a follow-up?

Alexander Huebner

Yes. Sorry. My question has already just been answered before. Thank you very much.

Lauren K. Day
Head of Group Communications & Reputation
Thank you. And thank you, everybody. I think we've talked to everyone who wanted to talk to us. Thank you so much for your attention and your participation. As always, if you have any follow-up questions, anything you want to talk about in more depth, please feel free to write us an e-mail and Allianz Group Communications. You know your contacts and you know how to reach us, and we're here for you to help talk through anything. Thank you again for your time this morning, and we wish you a very pleasant day and a very pleasant weekend ahead. Thank you.