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Earnings Call

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Presentation

Operator

Ladies and gentlemen, welcome to the Allianz Conference Call on the Allianz Group Financial Results for the First Quarter of 2024. For your information, this conference call is being streamed live on allianz.com and YouTube. A recording will be made available shortly after the call.

At this time, I would like to turn the call over to your host today, Claire-Marie Coste-Lepoutre, Chief Financial Officer of Allianz SE. Please go ahead, Claire-Marie.

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

Thank you very much, Andrew. Good afternoon, everyone. I'm very happy to report our very good results for the first quarter of 2024. If we look at Page 3, and we start with the group overall, we see here a good growth this quarter with our total business volume up 7.5% at EUR 48 billion. Our operating profit is at EUR 4 billion, which is 27% of our midpoint outlook. And our shareholder core net income is up 16% compared to last year, also supported by improvements on the nonoperating profit side. All segments are contributed to these results, which is really providing a good balance and in particular, the P&C segment.

So let me go in a bit more detail into P&C. You see as well a good growth level at 7.5% internal growth with a very good pricing momentum. Our combined ratio is at 91.9%. Here, you can see, which is in line with last year, and you can see here that we have benefited from a lower level of NatCat with less reserve release as an offset. And what is really super important in the combined ratio is that in the underlying, our attritional loss ratio is developing in line with expectations as we earn the price increase. We emerged with an excellent operating profit at EUR 2.1 billion, which is up by more than 10% compared to last year.

On the Life and Health side as well, really good level of growth, growth at an excellent new business margin, which basically means we are emerging at a value of new business of EUR 1.3 billion, which actually is the highest level of value of new business we have registered in a single quarter. And when it comes to our CSM release and our operating profit, we are exactly in line with our expectations, and we have EUR 1.3 billion of operating profit for the quarter.

On the asset management side as well, a really good quarter. You can see a very high level of third party net flows of EUR 34 billion for the quarter with an excellent level of performance fees as well that came into the quarter. So together with an improved cost income ratio, this is leading to an operating profit at EUR 800 million, which also nicely up compared to last year.

So overall on this page, we see a very good start into the year and all key metrics, in terms growth and profitability are better than our full year assumption as communicated in the year-end call.

Let's move to Page 5 and let's have a look at our capital status. So when it comes to the Solvency II capitalization, you can see that we are strong at 203%, which is slightly down compared to year-end 2023. And if you look on the right-hand side at the key sensitivities, our sensitivities have slight reduced compared to year-end 2023. So as a consequence, we have a stable level of solvency post stress compared to year-end 2023 at the end of the first quarter.

Let's move to Page 7, and let's look in more details at the development of the solvency ratio. So basically going down from the 206% to the 203%, you can see the model change effect, which is basically the regulatory update of the -- obviously, ultimate forward rate, which is bringing 1 percentage point down on the solvency ratio.

In terms of operating Solvency II earnings. We are emerging at 6 percentage point, which is within the range of our expectation between 6% and 8%. We have a bit lower operating Solvency II earnings this quarter, mainly linked to the fact that we had a higher level of growth in the quarter and especially coming from the Life business. And so as such, we have some timing effect at the beginning of the year with a higher level of premium that we anticipate is going to work itself out over the year.

On the market impact. We are also slightly down, minus 1 percentage point, and that's related to positive effects that came from the equity side with an offset coming from the update of the [indiscernible] VA, together with a slight widening of the sovereign spread, together with our ongoing mark-to-market adjustment of real estate. On the capital management side. We have minus 6 percentage points, out of which we have the expected effects that came from the share buyback of EUR 1 billion, that was announced during the year-end call.

We have the dividend accrual effect. And then we have a small effect coming from capital redeployment into smaller M&As that took place in the fourth quarter, like the 2 acquisition in Italy, of some renewal of agreement as well that also came with an effect into that capital management action. Tax, I don't think I need to comment.

So overall, I think if you and you look at the development of the solvency ratio compared to a top-down estimate that will certainly have been to maintain a flat level of Solvency II ratio at 206%. We have the 3 main drivers I was mentioning for 1 percentage point each. So this higher growth [indiscernible] mark-to-market effect of real estate and then, the smaller M&As and renewal of distribution agreements that all came for 1 percentage point. So overall, we have a strong and unchanged capital strength at the end of the first quarter versus year-end. And let's now move to P&C. And have a look at Page 9.

So on Page 9, our P&C growth is strong at 7.5%, and this is well shared across the portfolio. This is mainly driven by rate, but with nuances clearly depending on the dynamic of the market. As an example, here, you can see that we have highest rate change in the U.K. and in Australia, I would say, as expected, given the inflationary effect that we expect to be the highest in 2024 there.

We continue to have a buildup of rate on renewals. As you can see, at the end of the first quarter, we are above both full year 2023 and the first quarter last year, which was at 5.6% against a 7.4% we see now. And in the underlying, on the retail side, we have a higher rate change on renewal, which is at 11% in the quarter. For Motor, it's even higher. Commercial is still solid at this point in time with MidCorp, which is up 6% and LargeCorp, which is at 3.5%, as you can see on this page as well.

Let's move to operating profit on Page 11. You can see our very good operating profit at EUR 2.1 billion. On the [walk], you can see that we are benefiting here from both the technical side and the investment side into the positive development of the operating profit. And in general, we are running ahead of our midpoint guidance for the year. Our combined ratio is at 91.9%, which is better than the 93% to 94% range. We based our guidance on for the full year.

Now if I go in a bit more detail in the combined ratio on the right-hand side, you can see that our expense ratio is steadily improving by 30 bps compared to last year. The runoff level is lower compared to last year. Here, we have seen as well some negative development from some NatCat events from 2023 that contributed to negative runoff into this quarter, that was mainly for the events in Italy and Australia last year.

Our NatCat impact is lower. And within the attritional, we are developing ourself with an attritional, which is better by 0.4 percentage points compared to year-end 2023. And that's fully in line with our expectation to achieve a 1 percentage point improvement by year-end as we are earning the rate momentum into the loss ratio.

Then when you look at the resulting combined ratio for both commercial and retail. Retail continue it's excellent -- sorry, commercial continues its excellent trajectory at 89.9% combined ratio and retail is fully in line with our expectations at this point in time. Again, I'm reemphasizing the effect of the attritional, that we are indeed tracking in that -- on that side, in particular.

Let's move to Page 13. And here, you can see the translation of this very good performance across the entire portfolio. I think it's a very nice page across the board clearly. And you can also see that some of our operating entities where we were paying more attention last year, given also the inflationary effects, are developing nicely like the U.K. or Australia, in particular, on that page.

Let's move to Page 15. And on investment side, we are up 19% versus last year as we continue to earn the benefits of the higher rates. Our interest accretion is at minus EUR 360 million. It's basically exactly in line with our expectations for the first quarter given the seasonality effect as well. Our economic reinvestment yield is at 4.3%, which is ahead of last year, too, which is good. So overall, we have an excellent start into the year on the P&C side. In retail, we have a double-digit price momentum, which is earning into our combined ratio, while commercial continues to deliver steadily, both terms of top line and technical performance.

Let me now move to Life and Health on Page 17. And here, you see that we have a strong new business momentum in the first quarter with our PVNBP, which is double-digit and that's particularly supported by Allianz Life, Italy, Asia and the German health business. We also had a one-off effect in this quarter associated with a large structured reinsurance contract.

Our new business margin is very good at 5.7%, which is above our target of 5%, and all our entities are delivering here. So this is leading to a record level of value of new business, as I was already mentioning at EUR 1.3 billion. What is as well, very nice, is that 94% of this value of new business is from our preferred product areas.

Let's move to Page 19. And here, we can have a look at the CSM work. So this work is very simple this quarter. We have negligible economic variances, and we have some noneconomic variances, which are broadly in line with our expectations. The main effect here is actually the reflection of some of the lapse effect or update of our lapse assumption on the French book.

So we have a very nice normal CSM growth, which is at 1.7%, which is really good, and that's above our yearly expectation, given the higher level of value of new business we have seen in the quarter. Our CSM release is at EUR 1.3 billion, which is exactly in line with our expectations and the yearly guidance we have for that item.

And on the sensitivity side. They are basically unchanged compared to year-end and they are obviously very stable overall. So the CSM [indiscernible] is quite a stable [indiscernible], I will put it this way.

Let's move to operating profit on Page 21. And there as well, it's a very simple page from my perspective, the translation from CSM to OP is fully in line with our expectation in between items. So we emerge with an operating profit at EUR 1.3 billion, which is at 26% of our yearly expectations.

Let's now move to Page 23, where you can see that over our entire portfolio, the good developments I was mentioning are confirmed basically and both in terms of CSM and operating profit, we are in line with our expectations when it comes to an entity-by-entity view. So overall for Life Finance, we have a very strong quarter, both -- we see growth. We see our new business value ahead of our expectations. Our CSM release and our operating profit are in line with our full year assumptions.

Let's now move to asset management. I'm going to skip Page 25 and go directly to Page 27, where you can see that our third-party assets under management are up 4% versus the beginning of the year. We had a strong start with EUR 34 billion of net flows that are stemming both from PIMCO and AGI, and that went mainly towards the fixed income asset categories, but also in alternatives. On average, our net flows and the market movement takes the asset under management up 5% versus last year, which I think is a good basis for the rest of the year.

Let's move to Page 29. Here, you can see that our revenues are up 5% due to the higher assets under management and a very high level of performance fees, which are the highest in the first quarter since 2013. This is certainly not -- probably not a to be extrapolated for the rest of the year, I would think. But it is definitely nicely contributing to the performance of this first quarter.

Let's now move to operating profit on Page 31. You can see that our operating profit grew by 7%, reflecting the higher average assets under management and the higher performance fees while we have a good cost control with an improved cost income ratio across both PIMCO and AGI. So overall, I think we had a very good performance of the Asset Management segment in a volatile environment in the first quarter, and we now have good prospect for the asset management business this year.

Next page on the corporate segment. I'm going to skip because it's better than expected, and there is not much to highlight in the walk. And let's go to Page 35, where we can have a look from the translation from operating profit to net income. You can see that this quarter, the translation is actually quite simple. We have approximately EUR 500 million of nonoperating profit, where we had, in particular, lower impairments compared to last year. With a 25% tax rate, which is fully in line with our expectations, our core earnings per share is at EUR 642, which is up 18% compared to last year, which I think is an excellent level.

Let's move to Page 37, and let me summarize. So we have a very good start into 2024. Our total business volume is at EUR 48 billion. We see growth stemming from all segments, which is very good. Our operating profit is at EUR 4 billion, which is 27% of the yearly mid-point. Our shareholder core net income is up 16% compared to last year, and we have a strong balance sheet with a solvency ratio, which is above 200%. So that allows me to confirm that we are very well positioned to confirm our outlook at EUR 14.8 billion, plus/minus EUR 1 billion, as all our key metrics in the first quarter in each segment are better than our full year 2024 assumptions.
With that, I'm happy to take your questions.

Question and Answer

Andrew Ritchie

Thank you, Claire-Marie. Okay, we're now ready to go to questions. [Operator Instructions] Just one housekeeping request, maybe a slight change from history. [Operator Instructions]

So with that, I think our first question is from Andrew Sinclair of Bank of America. Go ahead, Andrew.

Andrew Sinclair
BofA Securities, Research Division

So first was just on -- you tell us Claire-Marie, just a little bit about prudence in booking of your attritional undiscounted loss ratio in Q1. It strikes me that probably with low NatCats and the higher discounting benefits, you probably booked that fairly prudently, but it's always tough for us to measure that from the outside. Just can you give us some color in terms of the prudence of that attritional undiscounted loss ratio in Q1? That's my first question.

And the second one was just looking at the CSM role forward. The noneconomic variances and assumption changes line has been negative pretty much every quarter under IFRS 17. I think you talked about French lapse assumptions in Q1 this year, but it's been a pretty constant negative. I'd probably hope that, that number be a positive over time, if you're prudent. Just if you can give us some color on what we should expect for that line going forward.

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

Okay. Thank you very much. So first question on the -- a bit giving some color right on the attritional in Q1. I think like in the attritional, you have multiple dimensions. You have the large loss load, and you have what we call weather, which has a smaller level of NatCat we see, which are not making it to a NatCat actually, but are still weather related. So the 2 components in the first quarter was basically in line with our expectations, so there was not particularly any supportive dimension into this -- into our attritional loss ratio associated with that effect. Where we are particularly monitoring and where I'm particularly happy is when it comes to the pure attritional development associated to the earning of the rate. So linked to the frequency and severity of the business we are seeing.

And here, I think this is the first quarter only as well. And we have a lot on the -- I was also reserving actuary in the past. You have some elements that you had to take into careful consideration in the first quarter. So even if you have priced up and you see nice rate increase that you expect to come through towards fully towards the end of the year, I think a reserving actuary will not reflect that at the beginning year because you have a bit -- to be a bit cautious and really make sure that your assumptions on the pricing side are reflecting themself into the reserving side.

So I think the level of improvement we see at this point in time is a good level of improvement given the fact that we have this naturally cautious approach in the first quarter into our attritional loss ratio.

So now on the CSM side, where you were mentioning in need, the development of the noneconomic part of the CSM. So I think from my perspective, the way I look at it, and I'm actually observing it on my own since the third quarter close. I think we have had a lot of movements that we re associated more to us getting to know more -- our address to the IFRS 17 one. And so we had quite some adjustments that were related to this transition and the fact that as we were going through the books, we realized that we were in the need to adjust some dimension. So that was one.

And remember, we had some growth, CSM adjustments that basically on the net basis are not relevant because we had movement between gross and net. So that will be one big bucket, which I think are important into qualifying this component of the CSM development. And then I think on the noneconomic side, at this point in time, given the dynamic of the market, from my perspective, it's quite logical that we see rather negative adjustments the lapse experience we are having in some of our books.

Remember, we also have positive recycling, if I may put it this way between this noneconomic adjustment because we see lapses. But in the case of AZ Life, as an example, that will recreate because we get more new business that will recreate new CSM at a higher expected level of profit also. So I think that's also dynamics we need to have in mind. But I think given where we are in the economic environment for the Life business, I'm not so surprised that we see that effect into that component of our CSM work.

Andrew Ritchie

The next question is from Peter Eliot of Kepler Chevron.

Peter Eliot
Kepler Cheuvreux, Research Division

Andrew, I guess the first one was, I was a little positively surprised on the discounting benefit that it benefited the combined ratio by more points than it did a year ago. I was wondering, could you just sort of help us understand the moving parts there? Whether it's just the interest rates that you're exposed that you're exposed to are higher or whether there are some other moving parts that we can't see like duration or what have you?

And I'm just wondering if you can help at, all in, terms of updating us on your expectations for the full year based on where interest rates are currently? The second theme, also interest rate-related actually, but just looking at the sharp acceleration you've seen in interest and similar income. I mean I think I looked at in Q4, the year-on-year delta was plus EUR 120 million in Q1. It's almost doubled plus EUR 216 million.

And I think the growth in the asset base has helped, which is probably a mixture of volume growth and investment returns. But just wondering if you could help us sort of -- is there anything to sort of stop us projecting that further? Because if I look at the asset allocation as well, your cash has grown quite a lot, which presumably will be and reinvested. So I'm just wondering if the yield of the portfolio is even slightly understated. But just wondering if you can rein in my optimism on that line.

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

Thanks, Peter. Indeed, on the discounting effect. So certainly what -- we have a slightly higher than discounting effect from your perspective that I could understand. First of all, we have a normal pattern in terms of discounting in terms of -- on a quarterly basis, we get a higher discounting effect in the first quarter, and that's basically going to reduce itself over the quarter. So we can happily also provide to you the discounting pattern the way we see them on a quarterly basis.

So you have the seasonality effect that clearly explains part of the positive effect you may have computed, in terms of discounting element. And then the main driver for higher level of discounting is driven by both a bit of higher volume in some of our operating entities, mainly linked to higher reserves. So that's a case for AGCS, as an example.

And we also have certain operating entities with a higher level of inflations that will be Argentina or Turkey as an example, that are also contributing this higher level of discounting into the first quarter. So those are the main effects we see. But obviously, overall, the discounting also depends on the yield environment, which is also slightly better compared to what we had anticipated.

So if this rate environment will maintain itself during the entire period of the year, that should also help indeed to bring our discounting effect a bit to the higher side, which will contribute positively to the outlook, clearly. But I think that's too early to assess at that point in time. And then on the interest.

Peter Eliot
Kepler Cheuvreux, Research Division

Could I very quick?

Claire-Marie Thomas Coste-Lepoutre

CFO & Member of the Board of Management

Yes. Sure.

Peter Eliot
Kepler Cheuvreux, Research Division

Very quickly, sorry. That's great. I mean, I guess, we're probably looking at sort of Q1 this year versus Q1 last year. It sounds like we can assume that the seasonality this year should be similar to the seasonality that we saw last year, that you've guided to when doing our sort of full year forecast from here.

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

Yes. Yes, indeed. So that's actually indeed the case. You have the similar level of seasonality. I think what we expect in terms of discounting is that you have approximately 35% of your discounting effect that is coming in the first quarter.

Then I think on the interest and similar income. The way I look at it, Peter, is that for me, interesting similar income moves in tango together with the interest accretion. So what you see is that, indeed, we are earning the higher rates into the interest and similar income, but we are paying a higher level of interest accretion. So that's the way to look at it and indeed here, in that case, net-net, we have a bit more of a positive effect. But I would not extrapolate too much further up these effects, yes.

Andrew Ritchie

The next question is from Will Hardcastle, UBS.

William Fraser Hardcastle
UBS Investment Bank, Research Division

First of all, can you help to [outline] the current opportunity back in German P&C, please? Last year, there was lots of discussions about the likely double-digit price increases in German Motor, the opportunity for Allianz to grow volume as you push price increases further. There's a comment about the increased volumes EUR 100,000 year-on-year, but can you help us under as to understand how many of those came in Q1 stand-alone and perhaps the quarter-on-quarter progression?

And what percentage volume uplift, 100,000 days? That would be helpful. And second, I'm sorry, to go over old ground a little bit, but I remember a sustained period just over a year or so ago when there was a consistent inflation loading placed. I guess I'm just really wondering what's happened to this IBNR. Is this still assumed as reserve prudence or loading? Or is this being classified as case reserves now?

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

Okay. So I think on the inflation loading. So what -- so it's broadly unchanged, our inflation loading at the end of the first quarter. The main point is that it as it has transformed itself, if you want in terms of nature of a reserve. So it's still a reserve. It's still a dedicated reserve, but when it was first built up, it was built up for the short tail-type of line because we were expecting at this point in time with the inflationary environment coming through, that we will see an effect into our claims reserves at -- I mean in the subsequent year.

By now, this effect of the inflationary effect into our reserves did come through -- so did come through. So that's why it has already been reflected in our results and in our reserves, in particular, at year end 2023. So now what we have done, and we have done a lot of technical -- actually analytic reserve-related type of analysis. We have projected what may be the long-term nature of inflation to come into our long-tail reserves.

And as such, we have adjusted our inflationary reserve for that effect. And that will emerge in terms of development, if you want, in terms of true-up over time because those reserves are much more longer tail compared to the other reserves. Okay. When it comes to German P&C. So I think your question was related to basically what was the opportunity associated with the growth on the German side, right?

So I think what we have seen is a very strong level of -- I mean, we see a good level of growth in our P&C business indeed. And we have -- we have -- and we see that level of growth, emerging both on the Motor and non-Motor side. I don't really want to enter into the granular information here because it's quite confidential information as well, and we usually do not comment granularly on lobby -- by [indiscernible] basis.

But basically, if you do we have approximately 10 million customer in Germany, so 100,000n more customer in Germany is 1 percentage point more clients in Germany, and then you can take the expected profit here. What I think maybe if we step back a little bit more on the German portfolio, there is definitely a big opportunity associated to both. And we see we are well positioned given the dynamic in the German market. And the first quarter is confirming that dynamic, I would say, overall.

Andrew Ritchie

Next question is from Michael Huttner of Berenberg.

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

I have 2 questions. One is on the life and the one is on real estate. On the Life, you mentioned that part of the reason that the 6% growth in organic capital generation versus the 6% to 8% range, that was partly because Life growth was strong. But I thought I may be mistaken but somewhere has said that the life growth is now self-funding but in other words, those strain.

So I just wondered if you could give a little bit more color here would be really interested. And also maybe took that Life Reinsurance deal that sounds very attractive. And then on the real estate, so we've seen more negative coming through. Can you say how much you've now reduced the valuation of your portfolio in the past 8 to 9 months maybe? And how much more that is to come?

Andrew Ritchie

Michael, sorry, your line wasn't great. Just to clarify, I think your question, the first question, just to help us out here was you want to understand, as we've said in the past, that the Life business is self-funding from a solvency perspective. You want to understand why we're flagging it as a sort of more strain in Q1. Is that broadly the question?

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

Exactly right. Sorry about that.

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

So with pleasure. So I can explain indeed, I think, like -- so the Life business is a during 2023 fully self-funding in the sense that we had some of higher capital consumption associated to our back books that basically was I mean, was free up during the year. And business under Solvency II model actually was also self-bringing its own fund to basically 200% of own fund against the capital consumption. And basically, we use the growth on the -- the good growth we have seen on the Allianz Life portfolio, which is not under Solvency II, as you know, but which is under RBC and is treated with an equivalent formula was benefiting in terms of growth into the solvency ratio from the release, from the older books.

So what we see now in Q1 is that we have the new Solvency II business that is basically growing with exactly the same logic. We have slightly less runoff but we're still there from the older book under Solvency II. But we had quite some sharp growth on the Allianz Life book. And as such, we need to finance a little bit this growth and it also comes with some pattern effect, which we think is going to offset itself during the year. So that's more for a momentarily effect.

And that's still very much linked to -- I mean -- but still, I think the overall trajectory from my perspective is a very good one. So that's on the first point. And then on the real estate book overall. So we had 8% of revaluation last year. And for the first quarter, we had a bit less of 2% of revaluation in the quarter. And I think those are really average numbers, so I want to emphasize that, that thing that, first of all, you know I had a deep dive on that one.

Our book is super high quality, very diversified across the countries. So what we see is that this revaluation is done asset by assets. And some assets where we have evaluated more or much less. And also in some of that revaluation effect, you also have some FX effects that we need to have in mind. As an example, we have a nice real estate book in Switzerland which is super book and also appreciating very well, but it's in Swiss franc. So you have some FX effect also associated with these ones.

So that's for what we have done until now. For the rest of the year, as you know, we basically go through the portfolio during the year. So what the real estate team told me that you can expect similar level of revaluation as we have seen in the first quarter until year-end with a view that there will be as well after that, a plateauing of the revaluation because we really went through our book. And we have done a very good job, I think, diligently reflecting the market development. So I think that's what you can plan with.

Andrew Ritchie

Our next question is from Will Hawkins of KBW.

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

First question, please. On Slide 9, you're highlighting the acceleration of nominal rate increases. So you went from 5.6% to 7.1% to 7.4%. Could you give us the progression if you were thinking about real rate increases, please? I'm imagining the absolute number is very different. I'm not really sure about the progression whether we're seeing acceleration or what?

And if you can split between retail and commercial in that answer, that would be helpful, please. And then secondly, you've made reference to BaFin discussing changes in transitional measures in Germany, and I'm really sorry if I'm totally behind the curve on this, but I'm not really sure what you're referring to and whether it has any relevance at all to the business that Allianz is conducting or not. I know your solvency ratio excludes traditional, so I'm not worried about that. I'm just not really sure of the context of what's going on.

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

Sure. So I think on the real rate increase, the answer is that it varies a lot from -- I think, from one market, from one line of business to another line of business. And so I think what I could tell you as an example is that the real in the German Motor book, as an example, is above 10%, would one example. In the U.K., also for our Motor book, it's also clearly very in rate increase, which are fully in line with what, I think, you may have read press so I think it's very much nuance.

I don't have an integrated number that I could give you easily for that one, but I'm not so sure it's extremely relevant ultimately because what matters is more what we see translating itself into our numbers, as I was highlighting previously.

Yes. But if you have a specific question on a given market, I think we can -- we could do a follow-up, let us know. Then on these points on the transitional. So indeed, I think you are, first of all, exactly right that for us, it's not relevant because we don't stir our business with the transitional. So we have always carefully managed our business, excluding transitional. But I can explain to you technically what it is.

So basically in 2016, the transitional benefits were identified when you were computing the difference between the Solvency I reserves and the Solvency II reserves. So at that point in time, reserves when you were to consider the market consistency with the interest rate level that were close to 0, basically emerged higher compared to the Solvency I reserves. And so as such, the delta between the market consistent Solvency II reserves and Solvency I reserves, both considered being a transitional amount that was allowed to be amortized to zero over a period of 15 years, so until 2032.

And now basically BaFin did launch a requirement to recompute what will be that delta today, which is normal. Actually, it's really in the prerogative of the regulator to ask for that. And obviously, if you do that based on that order book of 2016, which has developed, first of all, to run off also because we have built some additional reserves and also linked to the fact that the interest rates are now higher compared to 2016.

This delta between the recalculated Solvency I reserves, and now Solvency II reserve, has actually reduced to 0. So that's the point. And then possibly, there will be a guidance that because this delta is now at 0, this should no longer be recognized in terms of transitional and that maybe enforced during the rest of the year. So that's to be seen. So there cannot because this is a consultation that is ongoing.

Vice versa, I think what we have in mind is that this computation could be asked in a couple of years from now or in 6 months from now, if interest rate development changing. And there the transitional could be reintegrated, if I may put it this way into the solvency ratio as a transition. Was that clear?

William Fraser Hardcastle
UBS Investment Bank, Research Division

Mathematically, your 20 points of uplift to transitionals will be going down because the main adjustment is to adjust for interest rates where they are today?

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

Yes, that's a much shorter way to put it together. Indeed.

Andrew Ritchie

Our next question is from James Shuck from Citi.

James Austin Shuck
Citigroup Inc., Research Division

So my first question, really, I just wanted to dig in to the increase in the SCR for the new business again. I appreciate it's elevated in Q1, you're pointing out, it will normalize across the year. It still looks like you're using about 6 points -- maybe 7 points of your gross capital generation and reinvesting that into growth that's a high number relative to peers.

And I'm just keen to understand whether you get the same benefit that others do from the release of capital on the back book, particularly on the Life side. When we look at other companies, maybe it's possible to see that there's this release and then that finances the strain on the new business. But you switched your product mix, perhaps earlier than others and therefore, maybe you don't get that same benefit. But just keen to understand that level of strain going forward, please?

And then my second question on the undiscounted. It's quite long phrase to say, undiscounted attritional loss ratio ex UIB, which I think was 10 basis points better year-on-year. You make the point, it's 40 basis points better versus full year '23, and that you're kind of on track for the 1 point improvement across the year. Now obviously, given the starting point in Q1, that implies that as we move through on a quarterly basis through the year, you get the enter of rate. And therefore, the exit rate but the end of the year is actually a much better number.

And my question is really how to think about any seasonality on that exit rate point? Because if we look into kind of Q4 to get you to that 1 point, then you're automatically a much lower base level moving into 2025. Perhaps with more rate to run through as well. So just keen to get some insight into kind of Q4 as we through into the year and then for next year, please.

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

Yes. So I think on this point on the operating Solvency II earnings and the capital generation. So I think the main point is that on the P&C side, our capital consumption, I think, is unchanged associated to the level of growth we are seeing from a quarter-to-quarter basis. And the main new element is higher growth from AZ Life side, which is coming with a slightly less of an offset on the historical in-force book.

Personally, I mean, my view is that definitely we are going to generate on a -- I mean for the upcoming next quarter, we need is 6 to 8 percentage point operating capital generation, which is a strong capital generation, I would say. So I'm not particularly concerned on that effect is really -- this is really this technical element associated to the also the higher level of premium in the first quarter and when you have -- and that's really going to be earned over the upcoming quarters. So I don't know, Andrew, if you want to add a dimension to that one.

Andrew Ritchie

I think the only difference, James, if you're comparing us with peers is probably things like the AZ Life growth there would be quite different from some of the peers and the degree of seasonality.

James Austin Shuck
Citigroup Inc., Research Division

Okay. Wonderful.

Andrew Ritchie

The attritional loss ratio was your second?

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

Yes, exactly. On the attritional loss ratio, so I think for me, what is -- so I think in the attritional loss ratio, as I was mentioning right, before we have different components, right? So you have components that will always be volatile, as I was mentioning, so the large loss load and the [indiscernible] load as well within this attritional 71% that was the guidance. You can see volatility as well. So that's why I think this overall guidance around 71% is a good guidance for the entire year.

And then you will also see some attritional -- some mix effect into the attritional -- I mean constantly, obviously, because it's not we are a monoliner in one single country. So you will have the various weight of the various countries that are going to come through. So for me, it's really the earnings of the rate we expect to see from the book as per plan, if you want.

But now if we see good growth in some of the markets, which is going faster compared to some other books that may nuance this attritional loss ratio -- this is pure attritional loss ratio development. So I would not take it as a completely static. I would reiterate that this 71% is the right guidance from my perspective for the entire year. And potentially, you will see some slight movements also towards the end of the year.

But then again, potentially would be also seeing some further developments from there onwards. So for me, we discussed it last time we met. I think this view that our range of combined ratio between 93%, 94% in the current environment is a good range. I would think we can make progress towards 94% as well in the upcoming years. And then we can create more value from my perspective, from a strong level of growth, from that level of margin for the future as well.

Andrew Ritchie

Sorry, James, you were cut off. So I'm afraid you -- if you want to follow up, you might need to get back in the queue.

So with that, we can go to the next question, which is from Vinit from Mediobanca.

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

So my 2 questions. First is on the Motor market leverage. From seeing some of the commentary, it seems like we are seeing a turn here in the retail motor. So you've mentioned Italy in your presentation, but also we keep talking about U.K. You mentioned something in Australia. I'm not sure, there's motor.

But just from where you're sitting, what do you think or see -- how far are we from this turnaround? Has it happened? Or is it starting to happen? Can it remain optimistic about motor market in the various regions herein? Second thing is just a quick clarification. You mentioned 2% charge on real estate, which is about EUR 25 billion assets, which is about EUR 0.5 billion when you look at just that 2%. Is that sort of the right number? And please, I just missed why are we doing these revaluations? Is it because of office occupancies or something else that you could highlight? And just so we can understand the risk there more.

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

So sorry, the line was not very good. So if I am not precisely answering your question, please let me know, right? So I think your first question was on the development of the motor market in Italy, right?

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

It [indiscernible].

Andrew Ritchie

Sorry, was -- Vinit, are you looking for an update on Motor across the book essentially?

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

On retail motor essentially through Europe. Yes.

Andrew Ritchie

Retail Motor across the book. Okay.

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

Yes. So basically, across book, we see good improvement in our Motor business. So our Motor combined ratio improved by a bit more than 1 percentage point to EUR 94.6 million in the quarter, and that's supported, in particular, by better profitability in the U.K., French and Italian book, yes. And then for real estate, you were asking why we do the mark-to-market revaluation. Actually, those assets are valued at fair value. And so as such, we have, I mean as part of our fair representation of our assets, we have to perform this mark-to-market valuation of our real estate book.

Andrew Ritchie

Next question is from Andrew Crean from Autonomous.

Andrew Crean

A couple of questions from me. Firstly, we've seen 2 Life back book deals fall away in Europe for other people. Could you just give us a comment on how you see the Life back book picture firstly, in Europe, but also uniquely for you in the U.S. with the ending is planned there? And then secondly, I was interested in your commercial versus retail split, and I would like to be able to analyze you in the underwriting side along those lines.

In order to do that, we'd need to see what the impact of discounting on the 2 areas was the BYD and the NatCat impact on each area. Is that something you might consider giving more disclosure on so that we can get in behind it?

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

So a new question on the Life back books. So I think in general, I think for the Allianz Group, we are constantly looking at ways to optimize our capital deployment. So clearly, Life back books are part of the considerations, they are part of the toolbox as our other tools. I mean there are multiple other tools you can use like reinsurance will also be another one.

And indeed, you are right, we big, big actions, in particular, on our U.S. Life book with [indiscernible] transaction. But we are constantly as I mentioned, looking at other ways to further extend along the same logic. And as we speak, we also continue to look at that across our portfolio. When it comes to, I think, Life back book operations right now. When you look at what's driving them from an economic perspective, the yield environment currently or the general environment is less favorable to make them fly, I think, in general.

So it's a bit less of a positive environment for Life back books on one end. And also I think the higher rate is making also Life back books. So we have them today also much better to operate with as well in terms of risk return profile, I would say. Then on the commercial versus retail. I'm not keen yet to adjust our annual presentation.

So we may consider to do more -- to provide more color on that going forward. But at this point in time, I don't really want to provide more detail. What I can tell you is that our loss ratio -- basically, our global loss ratio for commercial in the fourth quarter was at EUR 67.9 million, which is basically with also an expense ratio that was better compared to the combined -- to the expense ratio we have on the retail side that basically led to this number.

So for me and also traditionally -- so I think what is important is that the current dynamic between commercial and retail is quite different at this point in time, and this and you can see that also when you look at the underlying development for EDCS or for trade. Typically, we see that the rate environment has started to soften in some dimension. We are still capable of capturing the volume we want to see in those businesses.

But the dynamic has changed a little bit. While on the retail side, it's raised the opposite. We were more in a way softer environment. And now with the rate, we are capable of injecting into the portfolio. The forward-looking dynamic is more positive on that side.

I think you had a specific question on the discounting effect as well. What I can tell you directionally is that the discounting effect on the commercial book is also higher compared to the discounting effect on the retail side. That's linked to the duration of the book and also like the different type of currencies we see there. That is also contributing to the higher level of discounting on the commercial side, which is 1 percentage point higher actually compared to retail, if you want to do some math.

Andrew Ritchie

You're definitely capable of the math, Andrew, and you're not getting any more disclosure so thanks for the question.

And following my rules, we now move to follow-up questions. So Peter, Peter Eliot from Kepler.

Peter Eliot
Kepler Cheuvreux, Research Division

I feel very privileged. First one actually is a predictable question that hasn't been asked yet, but wondering if you can just give us the latest on PIMCO flows quarter-to-date. And the second one, you've talked a lot about real estate, and you've also commented on traded equity markets in the presentation elsewhere. Just wondering if you're able to add any sorts or insights into the performance of your private debt and private equity?

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

Yes. So on the PIMCO flows. So we have seen a continuation of positive developments in the months of April and also as we speak. So for the month of April, we are in the high single-digit number for the net flows on PIMCO side, which I think is really demonstrating that there is space for really good quality active asset management on the fixed income side. Also, in the overall context of the market. So that's good.

And as I mentioned already to you as well, in general, the PIMCO management is quite bullish on the further development and also on the new strategies that we have been injecting, yes. When it comes to the private equity book, actually, at this point in time, we are happy with the development of our private equity portfolio, both on the equity side and on the debt side.

We have a very high quality private equity portfolio that is super diversified. And you know we have a very long history of doing private equity, and we are benefiting from this long-standing experience that basically is dated back for more than 20 years. So we have teams that have built a really nice portfolio over time with a very high level of diversification.

Andrew Ritchie

The next question is from Michael Huttner of Berenberg.

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

I'm actually privileged as well. Would be better like this. You talked about the earn-through of the retail pricing. I just wondered if you could give a little bit more of your feeling of how this will develop for the year? And then the other question is a really stupid one, I'm really sorry. Why can't we -- could we just not multiply EUR 4 billion by 4? I know we've talked a lot about this could be better, this could be worse. But it sounds like you're quite happy with the number overall. And those are my 2 questions.

Andrew Ritchie

Sorry, Michael, just to be clear on the final question. Are you talking about the overall OP?

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

Yes, please.

Andrew Ritchie

So the first question was earn-through of retail pricing. You just want a bit more color there. And the second question is whether we should multiply the Q1 OP by 4, essentially. Is that right?

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

Yes.

Andrew Ritchie

Yes, cool. Sorry, your line is not great.

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

So on the outlook. So I think -- I mean you have been doing insurance for a long time, right? I think this is the first quarter. Clearly as I indicated, I think our key KPIs in terms of growth, in terms of profitability, are clearly ahead of our full year expectations, but that's only the first quarter. So that's why I think it's too early to revisit in the outlook at that point in time.

We don't know what may happen, also associated to NatCat developments and so on and so forth. So that's definitely too early to say. And I think we are doing a really good job at addressing the inflationary trends, but inflation is not gone at all. I mean that was also in the headlines recently. So we continue to see some inflationary trend. And so we have to be very modest as well on our ability to manage the inflationary trend into our portfolio. Again, I think we are really doing a good job and I see that coming through, but it's too early to say at this point in time, I think.

And then on the earning through of the rates. For me, I mean it's what we see, and that's fairly technical, right, because you have to take really portfolio. But portfolio, what you expect to come and how this is going to [indiscernible]. So you really need also to take the earning patterns. So to give more color on that item is a bit difficult. I think this is what we see coming.

And also, you may remember that for some of our books, we started to increase the pricing more towards Q2, Q3. So you will also expect that the earning pattern of those is more going to come stronger in the second half of the year that would be fully in line as well with our price increase trajectory.

Andrew Ritchie

And our last question in a minute is from Iain Pearce of BNP Exane.

Iain Pearce
BNP Paribas Exane, Research Division

The first one was just on PYD. So it sounds like PYD, a bit lower this quarter due to some prudence given lower and higher discounting and some loss [indiscernible] on some prior events. But also, you're sort of [tagging] higher inflation results on long-tail lines, which is just the question around the development of the reserves that you're seeing in AGCS. So can you could give us any detail on how progression on the AGCS reserving position is going, that would be really useful. And then just combining that with what we've seen on new business in AGCS, where you have been shrinking the portfolio. What are you seeing on go-forward claims? How are you seeing pricing in the commercial markets? And where has the exposure reduction come within AGCS?

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

Yes. So on the -- on maybe AGCS top line development. So we have indeed a slightly lower level of internal growth on the AGCS side, and that's linked to the fact that we have not taken up some of the business we thought was not priced accurately where we wanted them to be priced. And that's mainly the financial lines business in particular in the U.S., but some also business in the U.K.

That will also be the case for some of our cyber business and as well for some of the aviation business, which is also not entirely priced where we want it to be. You also have in this internal growth, which is negative, minus 1.9%, an effect that is associated with some delayed booking in the first quarter that basically, we are going to catch up in the second quarter. So that was more technical effects that could not be reflected at that point in time. So that will come as a positive effect into the business.

But other than that, I think on the AGCS side and on the commercial side in general, we are developing in line with our expectations. And the commercial dynamic is actually really good also on the MidCorp business associated to the Allianz commercial initiative where we are seeing also good development and good growth momentum on that side as well.

On your question on the PYD, also for AGCS. So we are obviously looking at that extremely carefully. We do not see similar -- we have not been in the need to strengthen our portfolio for the -- for some of the line of business that were in the press because we have been very diligently looking at the development of our -- anticipated some of that development into our books.

So in general, I'm feeling really happy with the level of reserve strength on the AGCS side and also as part of our small M&A operation in the U.S. for AGCS. We have also sold EUR 2 billion reserve that will also move away from the AGCS portfolio. But overall reserve strength, I feel good about clearly for AGCS and more broadly for the entire balance sheet of the Allianz Group.

I think in the first quarter, we have seen less reserve release, but that was simply related to the fact that, I mean our numbers were emerging quite nicely. There was no need to push fundamentally. So we did not stretch anything. So that was very posed and natural runoff that came through in that circumstance. But in the first quarter, where you are, again, always a bit more conservative for the reason I was mentioning early on.

Andrew Ritchie

Now we have one question left in the queue. And then Michael, you're stretching the definition of follow-up, but I'm going to be nice to you. So do you have another follow-up question?

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

It's a really simple Life one. It's Brazil floods. Can you give [indiscernible] and how you see it?

Andrew Ritchie

Okay. Sorry, again, I think you wanted Brazil floods, if we have anything to say. Is that the question?

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

Yes, please.

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

Yes. So it's very early for that event, that would be super well manageable. It will be to the low mid-digit type of event for us lightly.

Andrew Ritchie

Okay. Well, that concludes. I see no other questions in the queue. So thank you very much, everyone, for dialing in. If you do have any follow-ups, myself and my very capable team are here. So please get in touch, and we look forward to speaking to the second quarter. Thanks very much.

Claire-Marie Thomas Coste-Lepoutre
CFO & Member of the Board of Management
Thank you very much. Bye-bye.