S&P Capital IQ

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Allianz SE DB:ALV

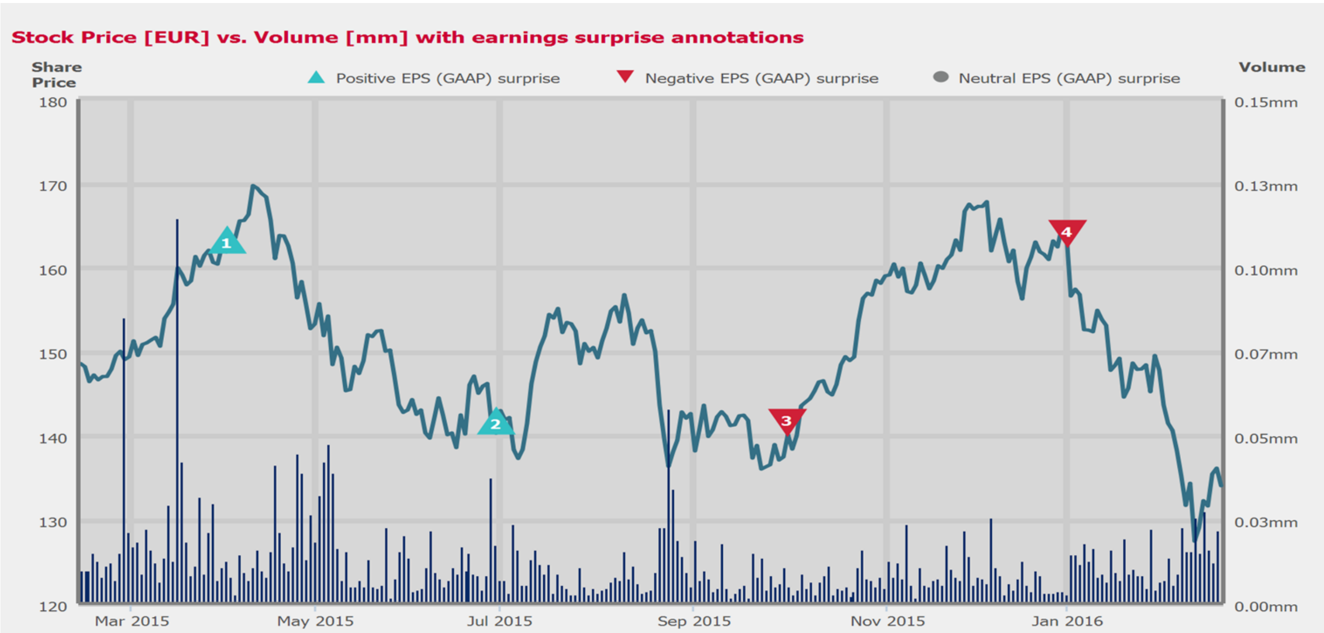
FQ1 2016 Earnings Call Transcripts

Wednesday, May 11, 2016 12:00 PM GMT

S&P Capital IQ Estimates

	-FQ1 2016-			-FQ2 2016-	-FY 2016-	-FY 2017-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS (GAAP)	3.48	4.70	▲35.06	3.82	14.58	15.49
Revenue (mm)	-	-	-	-	122987.63	128471.75

Currency: EUR
Consensus as of May-11-2016 9:34 AM GMT



- EPS (GAAP) -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2015	3.70	4.00	▲1 8.11 %
FQ2 2015	4.01	4.38	▲2 9.23 %
FQ3 2015	3.49	2.98	▼3 (14.61 %)
FQ4 2015	3.53	3.12	▼4 (11.61 %)

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Presentation

Operator

Ladies and gentlemen, welcome to the Allianz conference call on the financial results for the first quarter 2016. For your information, this conference is being recorded. At this time, I would like to turn the call over to your host for today, Mr. Oliver Schmidt, Head of Investor Relations. Please go ahead, sir.

Oliver Schmidt
Head of Investor Relations

Yes, thank you, Maria. Good afternoon from my side as well, and welcome to our conference call about the results of the first quarter 2016. I think I can keep it brief. We have published key numbers already last week, and you have seen our analyst presentation this morning, so all the details you will now get from Dieter.

Dieter F. Wemmer
CFO & Member of Management Board

Thanks very much, Oliver, and also warm welcome and good afternoon from my side. I use the presentation as published from our website this morning. So I will start with our new strategic introduction rate chart based on all the targets we have set in our renewal agenda. Of course, a 1-quarter compared to a 12-quarter target is not meaningful in all categories, but I will highlight the points. Clearly, with the high net income, we will talk later about EPS growth had a wonderful start into this 12-quarter average period. I would from the 32% not conclude that we will beat our 5% target in 2018 by a huge margin, but I would say we are well on track and stay ahead of the 5% target. The RoE, a similar effect, Q1 effect. P&C combined ratio, we still have a gap to reaching the flat 94%, I will talk about it with the P&C segment.

Our Life and Health OEs with a return on equity above 10%, we have a big shift in the participants here compared to year-end. The stable one is our German Life business, which ended the year with 25% RoE and started the year with 25% RoE where the other are really moving in and out. The U.S. was in at year-end. It's now out. France was not in but it is now in. And Italy moved out. Benelux moved in. And our German Health business moved out because we had a fairly large booking on increasing risk reserves for the Health book, which will normalize over the quarters. So you see, still a lot of volatility with the 2 disclosed transactions on Korea and Taiwan, which are not yet in the numbers because the transactions are not closed. But with the closing of the 2 transactions, certainly these are 2 countries which can permanently move out of the category below 10%.

New business margin, I will talk about later. Interest rate sensitivity, down 2 points compared to year-end and on the right track. And on PIMCO, I will, on the cost income ratio, I will also talk later about. And the other measurements are actually not done on a quarterly basis, so here we just put less in our year-end numbers, so there are probably more ad memoriam and not giving a quarter view.

So let's move now to the usual numbers. Revenue's down 6%, of which a good 1% is FX. Life is a driver for the reduction and it is our wanted reduction in Life because we sell Life not for volume, but for value. And we are up on new business value, and that is how we drive it. And also, on the risk consumption of the new business, we are moving in the right direction. Later you get more. P&C, plus close to 3%; and Asset Management, double-digit down in revenues. We talk about it when we look at the Asset Management numbers.

Operating profits, overall, I must say I feel with close to EUR 2.8 billion, we are repeating the strong start of the year from last year. And personally, I like this year's first quarter results more than last year's first quarter results. And I tell you why. Because our Life business last year had in Q1 a lot of one-off effects from high realized gains. We did last year a lot of changes in our asset portfolio in the Life segment in last year's one for the low-yield environment. So therefore, there was a lot of realization in it, which did not repeat this year. And this year, we booked also another EUR 82 million loss recognition operationally in our Korean unit. Because also in Korea, the 10-year interest rates almost dropped 50 basis points in Q1, parallel to other currencies. So -- and therefore, I think the quality of the result is really good.

Asset Management is following the outflows, in particular, on the retail space over the previous quarters. We see EUR 90 million less operating profit. And the corporate segment, well, has another effect from our internal pension. I actually put it in writing already a year ago in our explanation for Q1 that there is a high chance that it repeats in this year, and I can repeat this statement and say, and there is a high chance that it repeats again next year. And then we have a positive effect here from some Korean interest rate hedging, which explains the plus EUR 27 million. So overall, I think a really good number, pretty much same level as the good start last year.

And then let's move to the next page, Page 7. And now we are approaching the properties, is a big topic of capital and solvency. Sure, low-yield environment is the best friend for fixed income price, asset prices, so shareholders equity at a new record with EUR 67 billion. However, how is the economic picture for it? And that is the Solvency II capitalization, which is down 11 points on market movement and 4 points opening adjustment on a change the German regulator has done on the tax treatment in our Life company. That is a little bit of a complicated story, as everything in Solvency II, but also, I have to apologize that I did not watch out more in February that this could have an impact. Because it is the treatment of the unassigned policyholder surplus, which is a pretax figure in German local statutory accounting and was also pretax figure in all our models. So the regulators said, "No. In your model, you have to use it as a post-tax figure," and the tax is still unpaid. That means it is still a tax buffer in the local entity. With this change, actually, BaFin took pretty late in February, the consequence is that actually the local solvency ratio of our German Life business went up because it gave more flexibility of this tax buffer in the overall modeling. However, the transferability of AFR from the Life unit to the group changed in the aggregation formula, and the group is losing 4 points, although we have still the money available and the OE solvency's are all higher than before. So -- and that is not a decision on Allianz's model. That is a decision for all German Life companies. Whether you use standard model or internal model, it is for all the same, so it is nothing special for us. But also, I must say I was a bit surprised that something which was in each entity positive, ends up as a negative group effect. I had also to swallow when I understood the calculation.

So now moving to sensitivities, I don't need to explain. I think they are all easy to read.

Let's move to the next page and explain more what happened operationally in -- with our Solvency II number during the quarter. Let's start with the upper half of the chart, which shows the development of the AFR, the owned funds. We have created a waterfall chart, actually mimicking the prior MCEV development, so splitting between operational developments, market developments and special effects. So the first minus EUR 1.7 billion is the tax treatment I have just mentioned. So that are the 4 points we lost over midnight January 1. The second part of the waterfall are the operating earnings of the business in the quarter under Solvency II assumptions. So the EUR 2 billion in life is probably the number sticking out. The other numbers, Asset Management, P&C and also corporate segment, are, in the end, pretty close to the IFRS operating earnings, and that is -- there are only small economic variation like the reserve discounting in P&C, which has tiny effects, and you can qualitatively forget this differences.

So why is it EUR 2 billion in life? There is -- and please note, these are pretax numbers here. Otherwise, I couldn't compare it with operating profit. So that means in life, we have a normal expected business contribution of around EUR 900 million. We have another EUR 600 million coming from operating variance, no assumption changes. And the last point is a good EUR 500 million of value of new business pretax. And as we have aligned our value of new business calculation fully with the Solvency II rules, so you can take EUR 1 for EUR 1, our disclosed new business values, cut it up for taxes and you can add it here in the operating earnings. So I hope that this, in the long run, makes the numbers easier to understand.

So the next column is the market impact. EUR 5.8 billion down. You will say, well, that is a huge number and much more than we would have expected from your disclosed sensitivities. But please, there are 2 effects why the number is -- looks bigger than it really is. First, it is a pretax number. So take out some 30% taxes, you can compare it more easily with the disclosed sensitivities. And the second point is, as we wanted to bring it as close to the MCEV, we have actually also calculated the market impact on our U.S. Life business, which is actually under equivalence, does not have a market impact, and you would see the counter position under other. So therefore, here's this EUR 5.8 billion is probably too big to estimate the impact on our Solvency II ratio.

Then we accrue for the dividend, and with EUR 2.2 billion of net income and the 50% rule, you start in the first quarter with a big number, EUR 1.1 billion dividend accrual. So that is actually a good 3% of our solvency ratio. In particular important, when you compare it to our peers, who are not accrued during the year for quarterly dividends. And then other, as I just explained, is a correction for taxes and equivalents.

So then in the SCR, there, it is much simpler. I focus just on market impact. That is just drop rates, 50 basis points down in euro land and also most Asian currencies. Equity, down 7%; and credit spread, no movement. Then you get to the numbers here. Management actions, we have actually reduced the impact by EUR 1.3 billion. So you can also say when you all wondered in Solvency II numbers, we had roughly 18 points movement from the market overall, also matching our disclosed sensitivities. And we compensated roughly 8. So that is what you can see.

And with this one, I would then move to the next one. And please note, both transactions, Korea and Taiwan, are not included, and are still included as ongoing -- going-concern businesses in our Solvency II calculation. We only take them out when the transactions are closed, and I'm expecting at the moment a positive impact from both transactions.

So after so much explanation to Solvency II, let's take to the Solvency II training. Page 11 is a page we have stolen from an EIOPA training program they gave in London, well, 1 or 2 months ago. So you find it also on the EIOPA website if you want to compare the details yourself. So this is a standard euro valuation curve for every undertaking using Solvency II in euro land. It has nothing to do with Allianz. It has nothing to do with internal models. It is the valuation curve.

And the valuation curve is built up out of 1-year forward rate, and then translated into the spot rate. When you start the first 20 years, the light green is the spot rate which you could also calculate backwards by using the 1-year forward rates and then you progress year after year. So the blue line is then an artificial spot rate created out of the observed first 20 years, and then using progressively on a year-by-year basis as a 1-year forward rate, the 4.2%. And the formulas down there explain in detail how it is being calculated, but it clearly shows that even in year 60, we are as undertakings using Solvency II, far away from using 4.2% as a discounting rate.

So then there is a whole debate about, oh, what happens when the UFR is being reduced? We have disclosed on the comment page what is the impact for Allianz now. The proposal of EIOPA is twofold. On one hand, they feel the 3.7% would be more justified; and then they suggest, but in a year, the movement should not be more than 20 basis points. So if we would allow for the 50 basis points reduction of the UFR, that would cost us 5% fixed points in our Solvency II ratio, and that 5 percentage points would be according to the EIOPA proposal, then we will achieve somewhere in 2019. So that is the EIOPA proposal.

Personally, I think that the 4.2% is still the justified rate, and the political debate will then go backward and forward between the EIOPA proposal and the existing 4.2%. Why do I feel that the 4.2% is justified? Because it is the 2% inflation assumption set by Draghi and the ECB. And secondly, we feel that when you look long term, the long-term real rate is 2.2%. EIOPA has now reduced the period they are looking at, therefore, they came to this calculation, 50 basis points lower. And certainly, on a 60-year outlook, you can have a lot of arguments what is the right number. Actually, I recently saw a chart from the Bank of England interest rates showing the last 3 centuries. And then probably the good 2% is a better long-term real rate.

Okay. So now enough of Solvency II. Let's go back to our quarterly results. P&C, pretty pleased with volume growth, the 2.7% internal growth; 1%, price. 2% is actually volume effect. And probably, you want to know how the price effects, where they are coming from. A very good start into the year by Germany, close to 2%; also France, a good 1.5%. And then, in particular, important to mention, U.K., strong 3.5%; and Spain, 5% price effects. And then we had small negatives in Italy and in the global corporate, so large corporate business, and also a little bit in credit insurance. Australia was more or less flat.

So from this one, let's move to the results in P&C, Page 15. Operating profit, good EUR 150 million up. And actually, the biggest driver for the difference is the underwriting result, and the underwriting results benefited a lot from low catastrophe development. Actually, we had in the quarter some EUR 20 million cat events. I'm not sure that you can call EUR 20 million a cat event. So it was cat free, the quarter. The accident year loss ratio versus like on like, maybe 50 basis points attrition over last year. There is, on one hand, more mid-sized losses where we had last year really nothing. So therefore, I would say it is normal quarterly volatility. Or as an interesting anecdote, our AWP business, all our Travel and Assistance business had actually a worsening due to the Zika virus because we had a lot of travel cancellation, which visibly increased in this field, the loss ratio. So it's not only happening in Brazil. You can also see it in Munich.

Under other, the plus EUR 113 million we had last year a big restructuring charge under this line for Fireman's Fund. Certainly, that has not been repeated. That explains EUR 90 million difference, and the other EUR 20 million is actually good news because we are increasing our fee income business, not only in our assistance business, but in particular, in AGCS and olehamer [ph], so that is another EUR 20 million of sustainable profit.

Investments, substantially down EUR 100 million from last year. I come to it in a second. One-off results, uneventful. Good contribution across the board, no negative, so that means no reserves strengthening. In few areas, some single digit million amounts, but that is not relevant. And I would also like to mention here that we are actively managing our runoff business with the deal with Enstar. We transferred EUR 1.2 billion of long-term liabilities. Liabilities, which in the past years, always gave rise to increased reserves, so that volatility is out of the books. And then we have also sold our U.K. asbestosis business, which was gotten many decades ago by AGF. And that transaction is going to close probably in Q2. And then we have another offload of long-tail liabilities, which help actually to reduce also the capital charges for the long-tail liabilities. And those will stabilize our runoff ratio, which I feel is anyway, one of the strengths of our group.

So then going to the flagship OEs. Overall, I think excellent results. Now our leader in underwriting profit by distance, Germany, strong 89% combined ratio, but also benefiting from a really, really pleasant winter, not so for the skiers, but for everybody else and, in particular, the insurers. So that was a good start into the year. Italy, still a very strong combined ratio even when we have to accept that in motor, the market is slightly going worse. And you can also see that in other areas, the business is really looking good. Allianz Worldwide Partners, I explained already on one hand, the Zika virus driving the loss ratio up. On the other hand, we had also in our Health business a worsening loss [ph] ratio. I think all others look pretty good. Australia, 101%, that is certainly not our 94% target. But please keep in mind that the first quarter in Australia is the quarter with the high natural catastrophes because it is the autumn season, so to speak. And we are -- we think that 101% is a good start into the year. Also visible that it is 2% better than last year. And when it continues like this, then we end up also 2% better for the full year. And Latin America is not yet turning. Although, in Brazil, the Group Health business, which was our most difficult area, had a positive underwriting results, but motor business in the market turned negative and then drove up further. And further we had also more, I think, a little bit of additional reserving and write-downs for our Argentinian business. Spain, clearly, is a fantastic development in volume, strong combined ratio and with a price increases, that's really a very nice business to watch.

Interest income in P&C, Page 19. I said already, EUR 100 million less. The big shift is actually in net harvesting and other. We had last year in Q1 a positive impact from FX, and this year, a negative. So the swing is EUR 60 million. So actually, as I'm also hoping that this is not repeating and not a factor, that the sustainable profit should actually be a bit higher. So and then I think the tables on current yield reinvestments, you can read yourself.

Then we move to the life bit. Let's start also with an update, and I believe upgrade of our analyst presentation. A chart which explains you, I hope, better what is really our Life strategy and how we are doing there. We are splitting our new business into 4 categories. Guaranteed savings and annuities is all the old stuff, if you want to say so. These are the long-term guarantee businesses. Then comes the capital-efficient products. These are what we call the hybrids. That includes the fixed index annuity business. We sell, of course, mainly in the U.S., but also very successfully in Germany. And then we have some special capital-efficient product in Germany. We're actually in retail in Germany itself, 89% of first quarter new business volume was in this category, capital-efficient products. This is a huge swing and a huge achievement of our complex distribution channels. And the management team here is really doing a fantastic job to adjust to the low-yield environment. Next category is unit-linked without guarantees, so that is plain mutual funds, including a -- wrapped into an insurance product. And then you have all the -- and risk products and protect mortality, health, visibility, et cetera.

So you can really see how it drives the volume mix, but also what does it mean for the new business margin. I believe we are pretty much on track to achieve our 3% new business margin. The missing part is that actually protection and Health was weaker than expected in the first quarter. And the weak part is coming from France, which you will also see in the country figures of France, where we renewed our Group Health and Disability Protection business. And the market was too soft to get the price increases we wanted and, hence, we ended up with a slightly negative new business margin on this book. So there is more to fight for on improvement next year. But the renewal of this book is almost all in Q1 so, therefore, the next 3 quarters will not have this effect. So is this a relevant effect? Yes, it did cost us 40 basis points in the Q1 new business margin for the whole segment.

And then I think the right-hand side of the chart is for you, good to read. You can, in particular, see that the U.S. had a fantastic quarter. This is fixed index annuity business. We sold $2.8 billion, a 20% increase over last year and actually, also at a new business margin, which was above 4%. So really a very good start into the year.

So now the operating profit in Life. As I said in the beginning, the investment margin is lower than last year because we did less on realized gains. But also the Korean impact is booked partially here. We had in the technical margin a reduction in the profit because we had to strengthen reserves in the U.S., and also, as I mentioned already earlier, this one-off addition in our German Health business. So also the sustainable number, I would see better than the EUR 270 million we show as a positive technical margin. I think that is -- it should be clearly above EUR 300 million in a quarter. So another point I have forgotten to mention in the quality evaluation of the quarter.

So then I would move on to new business value. Clearly, compared to last year, 37% up in value of new business. So all the effort to drive new business for value are really paying off. And I believe that the interest rate development is pretty comparable, Q1 '16 over Q1 '15. We lost -- we dropped 50 basis points. That seems to be the Q1 story. Let's see how it works next year. Although, I'm, this year, less optimistic that we will see a recovery of interest rates over the summer as we saw it last year. So we have to make our 3% new business margin in this environment. When we use quarter-end interest rates, the new business margin would drop some 50 basis points.

So what is then my expectation for the second quarter? As I said, that 50 basis points will be roughly compensated by the French group protection business. So I would expect that in the second quarter, we should be somewhere around the 2.5%. And as we have more measurements and activities planned, I believe even in the low-yield environment, we can make our 3% step-by-step over the next quarters.

So as I mentioned already, to highlight a few strong figures. Germany, above 3%. And I believe we will see even here an uplift in new business margin over time. U.S. with 3.5%, probably at the maximum what they can do. In Italy, I would look for an improvement and also in France. Asia-Pacific will certainly benefit from the disposals. For example, Korea had a new business margin of minus 0.6 in Q1. So that looks to me all pretty much on track in the direction we should go.

Page 27 is our usual due diligence page on, "Can we still pay our guarantees?"; and our "Is any guarantee a huge risk for us?" I think in the meantime, you should get used to this chart. And I can only confirm that actually, we are still far ahead of our guarantees and, therefore, we are in safe territory. The details I leave to you for reading, then we have more time for the discussion.

Now coming to Asset Management. AuM, slightly lower than year-end. Actually, 2 drivers for it. That is actually, the dollar is weakening again, and Allianz Global Investors heavily has invested into active equity, suffered with the equity market. Otherwise, I think actually PIMCO stand-alone in dollar showed a small plus in assets under management between end of the year and end of the quarter. But as we are a euro company and last year benefited from the dollar, so I'm not complaining that this quarter the dollar went in the other direction.

So that the biggest points, we had inflows in Allianz Global Investors in Q1 of EUR 1 billion. PIMCO continued with EUR 10 billion outflows, very much in the first month of the quarter, but still showing a level which is very comparable what you see with our asset management peers in the industry in active fixed income. The inflows are going to passive. And I would still expect that PIMCO, as I said before and very consistent, the second half of the year, we are looking for a positive inflow number in total. However, with the outflows and, in particular, accumulated outflows now over 4 quarters compared to last year, it's no surprise that -- I'm now on Page 31 -- that the revenues are dropping by 12%. Actually, when you look at PIMCO stand-alone, we are more than -- we are actually 15% down in revenues, and Allianz Global Investors, well, 7% decline in the stock market translates roughly into a 7% decline in fees. So that is not a surprise, but we have also done here one correction. You see the big drop in the fee margin at Allianz Global Investors. We found that we have done for years one position of advisory fees, always shown as assets under management related. I said, we're not. We kept them for the P&L, but we are not showing them anymore in this KPI here. So actually, the drop of the number would be much smaller. I think out of the 3.6 basis points in drop you see here, it's about a good 2.5 basis points are linked to this change in accounting. And 1 basis point is mixed change of underlying funds. So that translates then into a profit and loss statement of our Asset Management business dropping 16% in euros from EUR 550 million to EUR 460 million. Performance fees are pretty much at the same level as last year. And the big drivers are volume and margin, where the compensating effect you should have seen are under other, but then it is, I think, consumed by other developments. So performance fee at PIMCO is all coming from this closed-end fund. We continue to pay back to the customers. And we will see more of this performance fees there. And performance fees of the ongoing funds, there was actually not a lot to book in Q1. And we continue to book the incentive plan for PIMCO under expenses. So also there, there will be a recovery in the second half of the year, which should then also help the cost income ratio.

And with this one, I come already to the end of the story. Corporate segment, similar numbers as last year. Operating loss of just EUR 74 million.

And then I would go for operating profit to net income. We had quite a large volume of realized gains in Q1. Quite a bit of it was the forward sale we did in April last year, selling one of our strategic holdings in China at a good market. And the accounting was with the completion of the transaction in February or March. And then we sold also, beginning of the year, some equity held here at the center and also some fixed income to change the asset allocation to our own pension liabilities for the German business, which we are having here at the holding company. And that created, in total, EUR 568 million profit, where the part which came from equity, that was EUR 400-something million, as according to the normal tax rules, tax free, and that results then nicely in a tax rate of 24%.

So -- but let me also pour some water into the wine. We -- when the transaction with Korea will close, we are expecting roughly a EUR 350 million IFRS loss. That would be then also a nonoperating item. And unfortunately, as this is also a realized loss on shares, it is as tax free as the gains were in the first quarter, therefore, the EUR 350 million will then flow through, pretax, post-tax, through our net income. Even taking this into account, I think we had a very strong start for the year in our net income operating profit and also in the business we are writing for value in P&C and Life. And hence, we keep our outlook unchanged. I think it would be too early to move away from the outlook figure. But having said that, strong start into the year.
And now I'm happy to listen to your questions.

Question and Answer

Operator

[Operator Instructions] We will now take our first question from Peter Eliot from Kepler Cheuvreux.

Peter Eliot
Kepler Cheuvreux, Research Division

I had 3 questions please. The first one was on Slide 11. Thank you, Dieter, very much for the teachings there. I guess, you make this point yourself on the slide. But it seems to me that the industry is currently getting quite a big benefit from the shape of the curve, the gray curve, at 20 years. And it seems quite strange that it's so sensitive to what happens around sort of years 18, 19, 20. So if the forward rate at 18, 19 years increases, then the valuation curve will fall and your solvency ratio will fall. I'm not quite sure exactly how the extrapolation formula works, but if you get 18, 19 years going up a fair bit in the curve sloping down, then it's quite easy to see the sort of -- the gray curve could be even sort of 200 basis points lower, instead of around sort of 25, 30. So I'm just -- that seems very counterintuitive to me. And I'm just wondering if you agree with that, and if you have a view on that. Second one, much quicker. Just given the recent disposals, I was wondering if you could give us an update on the current balance of your M&A budget. And then the third one, inevitably, thank you very much for your disclosure on Slide 9. And since, inevitably, we need -- we always ask for more information, we get this useful stuff, I just want to check a couple of assumptions. I assume that the operating earnings numbers are based on start-of-quarter assumptions. And I assume that the new business contribution is an all-in number. So there's no additional negative pressures anywhere else from growing the business at all. And lastly, the EUR 0.6 billion number you mentioned for operating assumption changes, could you just say to what extent you consider that number to be repeatable? And sorry for the [indiscernible] question.

Dieter F. Wemmer
CFO & Member of Management Board

Thank you, Peter. So next time, I only do the Solvency II charts, and so that we skip. So on the spot curve, I'm not really following you. Because the valuation curve is the spot rate. So what we observe is the green line in the market. We have plotted the gray line because these are the 1-year forward rates. So you can, if you want, reconstruct the green line by starting somewhere in year 2, and then you do on a pro rata this 1-year forward rate to construct the spot rate. But the spot rate is, in the end, the spot rate, and whether the 2 curves absolutely follow the formula we have added to the page, I'm not sure. But actually, when I look at the gray curve, you can also say we have -- yes, it is very steep in the years from 16 -- to 15, but this dip between 14 and 20, you can also say that is not natural. So actually, our valuation and the spot rate is actually too low at the moment. And actually, we see that we have a very artificial market on this one. So you can also make this point. I cannot conclude your conclusion.

Peter Eliot
Kepler Cheuvreux, Research Division

Okay, can I just quickly explain what I was meaning there, because I take your points completely. But my interpretation is that the blue part of the curve is basically calculated from the green curve at 20 years and a combination of the green curve and the gray curve. And the reason...

Dieter F. Wemmer
CFO & Member of Management Board

No, no, no. It's the green curve, and then you add every year this 1 divided by 60 off the 4.2%. That is the formula which is being shown here.

Peter Eliot
Kepler Cheuvreux, Research Division

Okay. I'll follow up offline with the IR fellows.

Dieter F. Wemmer
CFO & Member of Management Board

Yes. Maybe I think we -- that is probably for longer discussion and would be good for a seminar, yes. So let's, well, actually look at the valuation rate 21. We have actually put the formula in how you move from 20 to 21.

Peter Eliot
Kepler Cheuvreux, Research Division

Yes, and the 2.2% in that formula is taken from the green -- the gray curve, and it's quite a bit higher than the 20-year point because the curve is steep for 20 years and so you've -- it rises quite sharply after 20 years because of the [indiscernible]

Dieter F. Wemmer
CFO & Member of Management Board

Yes, I think we take this off otherwise we are doing the rest of the day this one here. Disposals, I think we only update it as published M&A budget when the transactions are closed. I'm not doing now rough estimates, but with the numbers I have given, you can do your own go forward. And the last one, the operating earnings, no, there is no averaging effect in it because we did not use any assumption changes. And the -- of the operating variance, maybe EUR 400 million, a special EUR 200 million is more normal. So that means if you want to normalize the EUR 2 billion, assuming that pretax new business value is unchanged, then we are somewhere at EUR 1.6 billion plus for the quarter.

Operator

We will now take our next question from James Shuck from UBS.

James Austin Shuck
UBS Investment Bank, Research Division

I also had 3 questions, please. Just starting or returning to Slide 9. Thanks again for the reconciliation between the 2 ratios. I just wanted to check my understanding of this, because clearly, the operating Solvency II earnings are flatted somewhat, but if you normalize the good luck you had in the first quarter and the operating variance of the EUR 600 million and then express that in relation -- you annualize it and express it in relation to the SCR, I think you get a view that the organic capital generation in a normal expected year would be in the region of 20 points of Solvency II generation. So can you just confirm that, that number makes sense, so if there's anything else I should be thinking of. And in particular, if you're able to give me an insight into what the level of capital you have to put up against the Life new business profit on the Solvency II, I'll be very interested to understand that, please. My second point is a little bit tricky, but I just wanted to understand the profit signature under IFRS from the U.S. and the Italian business in particular, because clearly, you've been growing very strongly in both those regions in Life and Health as is, and yet the operating profit in Q1 in the U.S. and in Italy, they both fell. And I understand that U.S. reflected a reserve increase of about EUR 42 million. But am I right in thinking that there is an element of profit that's booked upfront the reflection of the very strong growth? And that if new business profit starts to decline, then there is going to be headwinds on the Life and Health earnings in the U.S. and in Italy, i.e., there won't be a ton of averaging impact from the assets under management. If new business falls, then that will act as a big headwind from those 2 divisions. And then thirdly, just very quickly. I wonder if you could just comment on how you see the M&A market evolving particularly in the kind of EUR 5 billion to EUR 10 billion sort of range in terms of opportunities and financial returns?

Dieter F. Wemmer
CFO & Member of Management Board

Okay. That's a very complex list of questions. Okay, let me start with the Solvency II generation. We show on the chart 9% pretax for the quarter. So that would be 6 points after tax. So now when you say, okay, 1 to 1.5 points is coming from this one-off operational gains, then you are more between 4.5% to 5% generation for the quarter, minus 3% go into the dividend. Then you are net of -- well, now, we can argue, yes, it is maybe 10 points for the year, net. But important is that it is a positive number because that is not including any changes we do via disposals and other capital management actions. And I think that is a very strong message, and I'm very happy that you are picking up on it, James, that we are generating more solvency than we are consuming, and we will certainly explore on this point more into the future. So second question, operating profits U.S. and Italy. In Italy, we just didn't have the one-off performance fees we collected under the unit-linked business last year. But the stock market was not really strong. That is the biggest effect on the Italian operating profits, therefore it declined. And then in the U.S., the reserve strengthening was on an old block of business, has nothing to do with our VA or fixed index annuity business. But also, I have to say we had some negatives from the base risk in this very volatile stock market in Q1, so the old VA block had some base risk losses, but that has nothing to do with early booking and late booking. So I feel that the fixed index annuity business is a very stable source of operating profit and growing nicely with the volume of funds under management. The last point is the M&A market, EUR 5 billion to EUR 10 billion. Well, I haven't seen a lot of these deals recently in the insurance space. It seems to be happening more outside the insurance space. So therefore, I cannot say whether the pricing of this transaction is better or worse. The data points are so rare that no conclusion is possible.

Operator

We will now take our next question from Michael Huttner from JPMorgan.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

Dieter, on the solvency, can you give -- can you say how much benefit the announced disposals of Korea and Taiwan would be? And on the Asset Management, you said with confidence that -- or understood that the total net outflow this quarter would become a total net inflow by the year-end. And I just wondered if you can maybe share some of your confidence with us? And then the final point is -- the question is, the booklets, I mean, there's lots of nice information, but they're getting thinner every time you report. Clearly that's a voluntary decision. Why do you think the markets would reward less information?

Dieter F. Wemmer
CFO & Member of Management Board

The last point is easy to answer. You probably got asked by my IR colleagues that you should ask this question. So I think that we are delivering already so many details. And certainly, Q1 and Q3 are not anymore accompanied by a financial statement. So therefore, these are lighter quarters. But most of our peers have given up on these quarters completely. Therefore, with our analyst presentation, we give really a very comprehensive view, plus a qualitative explanation what has happened. And then you'll find on our website an additional spreadsheet where you can download a lot of additional details when you want to have more details. And altogether, I believe that is a pretty good service to give enough data points for the development of Allianz, and then in Q2 and Q4, you have then the additional financial statements. The impact of the 2 Asian disposals is positive, but I'm not giving any numbers. Let's first close the transaction to the full calculation and then we know it. And the Asset Management confidence is reflecting the confidence of the PIMCO management team. And I mirror it one-on-one. And they have some good ideas and plans how to move it forward. But you also know that Asset Management industry is a very confidential industry, which is not disclosing, too early, ideas and plans.

Operator

We will now take our next question from Paul De'Ath from RBC.

Paul De'Ath
RBC Capital Markets, LLC, Research Division

Just a couple of questions on the Life business for me. Firstly, on the U.S. and the FIA business. And can you remind me, what's your views on the impact of the final DOL rule on that business because, obviously, the fixed index annuities got brought into scope within that, so does that change your view on the outlook for that business at all? And that's question one. And then secondly, was just on the change in product mix that you've been very successful in doing in the Life business, particularly in Germany, I think you said that a huge proportion of new business that's going into capital efficient products now? And is there a higher cost at the moment of marketing those new star products. And the changing distribution costs, I guess, and of that shift that further down the line we might see fall away, and therefore, the VNB margin actually increases more into the future because of lower ongoing costs. Or is that not something that's really big enough to register?

Dieter F. Wemmer
CFO & Member of Management Board

The question with the DOL rule is not easy to answer, so let me offer you actually 2 answers. First answer is there is still a review of this DOL rule before it is truly final. So the whole story about what is the final rule is not yet over and is still under discussion. It could happen that the fixed index annuity business is dropping off this list again, because it was -- it came also at the last moment. For us, our sales, we see, actually even the current version of the rule, as an opportunity as we have proprietary channels which should help us to drive actually the volume. And we feel that overall, the fixed index annuity market will not get smaller. It actually could still grow with the current version of the DOL rule, and we see ourselves not as disadvantaged to participate in this market. So that is the 2 answers I can offer you. Very precise in Germany, we don't have higher costs included in this new business. However, you have a good point with your question. This already announced reduction of the guarantee rate for traditional products from 1.25 to 90 basis points from January 1 onward is a suggestion of the German treasury. So with this one, we believe that, actually, the customer interest in this new product continues to grow. Actually, the traditional product which guarantees below 1% are probably even more difficult to sell. That means our own agents have no arguments that other competitors offer different products which are easier to explain to the customer. And the independent agents who are all the financial brokers are anyway selling our products very well, and that will then continue to grow in market share overall. For us, we are, I think, in Germany, our market position is really an excellent one.

Operator

We will now take our next question from Thomas Seidl from Bernstein.

Thomas Seidl
Sanford C. Bernstein & Co., LLC., Research Division

First question on capital management. So let's assume that for the rest of the year, you stay at 186% because what you earn is basically consumed by capital markets. And you would have, let's say, EUR 3 billion M&A budget left by end of the year. Would you still feel comfortable paying this back to shareholders, which would result in a 9% drop from 186% to 177%? Or would you like to be at a higher capital level in order to execute this capital return to shareholders? That's the first question. Second question, Asset Management. The revenue margin is going down quarter-by-quarter, 40.9 is now the level. Is this a new normal in a way? Or are we seeing further reductions on this important metric? And the third question in P&C. I think if I load it for normal NatCat, you are more in the range of 96% combined ratio versus the target, 94%. Especially, expenses are now trending in the wrong direction. So what are the actions to get you to the 94%?

Dieter F. Wemmer
CFO & Member of Management Board

Okay, thank you, Thomas, for the question. Capital management, we manage the company in a range 180% to 200%, as announced and explained at the Capital Markets Day in November. We think we have no reason to change any statements made at this Capital Markets Day, also how we handle the M&A budget, either it's M&A or we return it to the market. So on Asset Management, in its current mix, the revenue margin of this quarter is probably the best starting point for the upcoming quarters. Certainly, mid-term, we have clearly to work on it, and that will be considered as part of future strategic plans of our 2 asset managers. On the P&C ratio, I'm not fully agreeing with you. First of all, each quarter has a slightly different baseline. Our -- usually, our full year one-off ratio is also better than the Q1 run-off ratio. And as I said, we had, in the attritional loss ratio, some volatility in Q1, which went in the negative direction. So our -- we had last year, 94.5%. I feel that we are still playing around this number as a combined ratio. But I said that it still gets to the 94%. So with this part, I clearly agree with you, Thomas.

Thomas Seidl
Sanford C. Bernstein & Co., LLC., Research Division

Okay, on the -- maybe one follow-up. First one. So let's assume 185% is the number in Q4, would you then be willing to go to 175% assuming you return EUR 3 billion to shareholders? Or is that violating the 180% to 200% tolerance?

Dieter F. Wemmer
CFO & Member of Management Board

That would violate the 180%, but don't worry.

Operator

We will now take our next question from Farooq Hanif from Citigroup.

Farooq Hanif
Citigroup Inc, Research Division

Just going back to capital generation. Going also back to what James Shuck was saying earlier. In numerical terms, you're ending up with a number post kind of business evolution increasing SCR. You're ending up with something roughly about EUR 7 billion a year, and that number is materially bigger than your previous guidance on free cash flow. Now I know that free cash flow is not necessarily the same thing as Solvency II capital generation. But I was wondering if you could just reconcile the 2, and which number you would recommend we use when trying to work out how much cash you're generating in the business and how much you're going to possibly be able to use going forward? So just to reconcile those -- the EUR 7 billion and the EUR 5 billion that you talked about historically. Also going to Capital Life products, when you look at the profit under IFRS, as a percentage of reserves, it's just a very decent margin compared to the guaranteed product business, which is, I guess, not surprising. What is the sort of average capital consumption of that business? Is it 1/4, is it 1/5 of the guaranteed business? Just roughly. And the last question, actually, on AWP. To what extent do you think there's a bit of a repetitive casual continuation of poor combined ratio in that line, because that's obviously been high-growth decent profitability. Just wondering to what extent we should worry that there's a reduction in profitability for more than a quarter?

Dieter F. Wemmer
CFO & Member of Management Board

Let me start backwards with AWP. I don't think that it is a long-term deterioration, but it might be still in Q2. On the EUR 7 billion number, well, there is still some variation. And I said EUR 400 million is still -- was still a one-off, so therefore, you get a bit lower than EUR 7 billion. And also please, this is a pretax number. When you want to make free cash flow out of it, usually, the tax man wants its share. And therefore, that is then maybe a bit going too far out of the Life segment. But overall, I think we are in a good way to manage our Solvency II ratio going forward and still can pay an attractive dividend.

Farooq Hanif
Citigroup Inc, Research Division

May I just return on that, actually? So, no, the EUR 7 billion, maybe I should've shared my back-of-the-envelope calculation. But I mean, I'm taking tax off of that number, it still seems to me to be materially higher than your guidance on cash flow. But obviously, you don't recognize that.

Dieter F. Wemmer
CFO & Member of Management Board

Yes. But look, the guidance on cash flow was the real cash flow. Here, you have still a Solvency II calculation generating surplus. But whether you can distribute the surplus -- let's take a company who is only doing unit-linked business. You produce very stable and nice value in-force, and if the company has not a lot of capital and has high new business growth, then there is no cash to be distributed because no supermarket, even in the U.K., will take value in-force as a payment. And therefore, you couldn't distribute the value in-force although it is generated surplus. So therefore, to translate from surplus -- Solvency II surplus generation to distributable cash and printed bills is still another step. And then we had the capital consumption of the Capital Life business that varies very much for each market. I can tell you, my favorite example is Germany. Our product Perspektiva, which is one of our big, big sellers in the German retail space, is roughly 30% capital consumption, let's say, for a single premium of EUR 100,000 compared to the traditional product, which looks, for the customer at first glance, pretty similar. So therefore, in total, maybe half of the capital consumption is a fair assumption. But that will then show up over time in the business evolution number, because the business evolution number is the capital consumed by new business, minus capital released by maturing business.

Operator

We will now take our next question from William Hawkins from KBW.

William Hawkins
Keefe, Bruyette & Woods Limited, Research Division

Hopefully, these 2 are quick. Vis-a-vis pension benefit that you said will probably recur in first quarter '17, is that something that could recur in years after that as well, or is 2017 the last time it happens? And then secondly, just conceptually, the M&A budget, the EUR 1.2 billion magic figure, how is that affected when you do a disposal at a loss? So are things like Korea and Taiwan, relevant for our thinking about that number, or would you just completely exclude them from the way you're thinking about the M&A budget?

Dieter F. Wemmer
CFO & Member of Management Board

Okay, thanks so much. The pension benefit is most likely to recur in '17. I think in '18, we will not see it. On the M&A budget, actually, I like the question. I have not thought about it, that this would be a possibility that when you sell something at a loss, that we could reduce the budget. I have probably to ask our shareholders what they would think about the idea. But I pick up your proposal and see whether we should subtract it.

William Hawkins
Keefe, Bruyette & Woods Limited, Research Division

I suppose, sadly, I meant it would increase the budget. But by the way, you're saying it's excluded from your thoughts about the budget?

Dieter F. Wemmer
CFO & Member of Management Board

Until 5 minutes ago, it was, yes.

Operator

We will now take our next question from Federico Salerno from MainFirst Bank.

Federico Salerno
MainFirst Bank AG, Research Division

Dieter, 2 questions, both on P&C for me, please. The first is on France. You have an excellent combined ratio there, still a 95, with a spread relative to the market getting wider, if possible. Do you have a view how much better it would get from here? That's the first question. And the second is on the Italian motor. Some local players are mentioning less competition, do you have a view on this?

Dieter F. Wemmer
CFO & Member of Management Board

Well, I think also, our French business has to contribute to the 94 group target. And we are not giving to anybody belief to participate in that 94 target. And as a French businessman, you look at the last quarters, it's somewhere in between 94 flat and 96. So with an average just below 95, I think we are not so far off from this target, and I believe it is certainly possible. On Italian motor, it depends probably on your starting point, but we feel that the competition is still pretty strong.

Operator

We will now take our next question from Jon Hocking from Morgan Stanley.

Jonathan Michael Hocking
Morgan Stanley, Research Division

I've got 3 questions, please. First, looking at the reinvestment yields, both in sort of Life and P&C, unless you're looking sort of Q1 on Q1, the gap between the actual reinvestment yield and the economic reinvestment yield has widened. So I used 10 points last year in Life and Health is now 20. I guess 30 points now in P&C is 20 bps. I just wondered whether that's a sign you're actually reaching for more or taking more risk until you reach the yield in that business. Wonder if you could comment a little about how you see the risk at reinvestments, first question. Second question, looking at Slide 21, where you've gone through the split of the new business by product bucket. I think it's a really helpful disclosure. I wonder what the earnings and the capital would look like if you split on a similar basis? And then just finally, in the work you've done in terms of reducing the interest rate sensitivity of the capital base, what scope is the future length and the asset duration more, and what have you been doing in 2Q subsequent to the quarter-end?

Dieter F. Wemmer
CFO & Member of Management Board

Okay, thank you. Let me start with the reinvestment yields. Well, the disclosure, I -- actually, I did not explain it during my presentation. What is under the economic reinvestment yield, we have just included here the cost of hedging foreign currency exposure. So it's mainly FX hedging. And therefore, I would not read in this that we are taking more risk because this hedging, we bring the respect to the previous level. So you can only say that we have maybe taken more foreign currency fixed income investments this year than last year, and therefore we have a bigger cost of hedging. So the new business...

Jonathan Michael Hocking
Morgan Stanley, Research Division

Sorry to interrupt you. So is the issue then that you've actually -- you've proportionately invested more in foreign currency or the cost of the hedging has gone up year-on-year?

Dieter F. Wemmer
CFO & Member of Management Board

I think it's more volume-driven and not cost of hedging. But it is probably decimal points. So tiny movements. The return on capital for the individual buckets of new business, that is a bit similar to Farooq's question on the consumption, capital consumption of our capital efficient business. Yes, we have to work on this additional disclosure how the capital's seen. We have at least disclosed on the previous page the operating profit coming from this 4 buckets, to give also the capital return by buckets. We have to think about it. It might be an idea for our -- when we do, in end of the year, more -- a full update on where we stand with our strategic agenda that we could also include something about it. And -- does this answer your question?

Jonathan Michael Hocking
Morgan Stanley, Research Division

Yes. And then just a question about what more you can do from the ALM perspective to reduce the rates...

Dieter F. Wemmer
CFO & Member of Management Board

Yes. Sorry, the ALM part. I think that's certainly a helpful step in closing the ALM gap, our 2 Asian disposals. And otherwise we are continue to write longer assets. We had the opportunity in the last now, almost 5 months or 4.5 months of the year, really to participate in sizable infrastructure debt placement of sufficient duration. So we certainly continue to write very, very long-dated bonds. Whether we should participate, as I was being asked this morning by the journalist, into the 55 of -- 55-year bond of space which is being put in place during the state here, I don't know. I'm not sure that we have 55 year-long liabilities we want to match with this bond. So -- but that is the decision of our Asset Management guys, whether they feel that we get enough margin out of this bond.

Jonathan Michael Hocking
Morgan Stanley, Research Division

So just as a follow up. On the -- so the Korea and the Taiwan disposal, I can see that, that's the perfectly sensible thing to do. But your RoE target for the Life entities, so to get everything like to 10% by the end of the target period, that is a very volatile metric. I just wondered whether there's actually underlying that is sort of more value-based metrics? The actions you've taken to date seems to be based more on economic capital absorption rather than on GAAP equity. So is there actually an underlying metric as well as the RoE?

Dieter F. Wemmer
CFO & Member of Management Board

Yes, that is, on one hand, true. But we will evaluate each of our entities whether they achieve a sustainable 10% RoE number. What we can only disclose here in the numbers is the actual number without any adjustments. But in our internal judgment, when we look at it, actually, we look for a sustainable 10% RoE number. And when we get our new business mix [indiscernible] when we make our new business margin at 3% with the smaller capital consumption for the -- our capital-efficient products, plus the fact that probably everybody over the years also work on their expenses, I believe that we can create also more sustainability in this number, even if there are quarterly jumps backward and forward on realized gains and losses from investments.

Operator

We will now take our next question from Michael Haid from Commerzbank.

Michael Haid

Two questions. Can you shed a little bit more light on the weather-related losses in the first quarter? To my understanding, you expect normalized 2.9% weather-related losses. NatCat was only 0.2%. How much was the weather-related losses? And I understand that the definition of weather-related is somewhat difficult. Second question, you mentioned a negative impact from German Health on the operating profit. Can you say what it was and whether it is a kind of one-off effect in nature or whether it could be recurring?

Dieter F. Wemmer
CFO & Member of Management Board

That was just a strengthening of loss reserves for Health claims that was a one-off effect. I must say, it's probably even normalizing during the year. It is more a one-off for the quarter. It is probably more a nil effect for the year. So it is more a timing issue than a real cost. Weather, well, actually, that is -- weather-related, usually is the first quarter, is below our global cat budget. But the question always is what is cat and what is the weather? We usually are actually not even calculating all weather losses because you have, well, slippery streets. And even if you have thousands of accidents because of ice and snow, you will never summarize it to a cat event, even if it was very costly. For us, a cat event is something which gets a number as an event and potentially ends up being paid by the reinsurer. So that is the simple definition of a cat event. We are collecting information to have a chance to get a reimbursement of the reinsurer. What is not reinsured, you never fall at cat event even if it was expensive. So therefore, it is a bit difficult to say what was what. In 2 cat events, we just had EUR 20 million in the year, and weather-related, I would say, we had 1 percentage point of the loss ratio overall what came from weather. In the second quarter, certainly the industry will see more cat events, the Canadian wildfire, which is still devastating Alberta is certainly creating a fairly sizable insurance event for the industry. We are not very big in Canada, so I don't think that it will hit Allianz a lot, but it is a big industry event.

Michael Haid

Okay, thank you very much. So the weather-related plus NatCat in the first quarter, one could say it was around 1.2%, and that compares to a normalized ...

Dieter F. Wemmer
CFO & Member of Management Board

Take 1.2%, [indiscernible].

Michael Haid

And that compares to the 2.9%, which you, on a normalized basis, expect for the whole year?

Dieter F. Wemmer
CFO & Member of Management Board

Yes.

Operator

We will now take our next question from Nick Holmes from Societe Generale.

Nick Holmes
Societe Generale Cross Asset Research

Just 2 questions. First is coming back to your shift towards capital light Life products, I wonder, Dieter, whether you could say that the objective here is growth or capital efficiency and capital return? And then second question on Asia, you're exiting Korea, Taiwan. Do you see investment opportunities elsewhere? And if so, where would they be?

Dieter F. Wemmer
CFO & Member of Management Board

Yes, Nick, thank you for the question. Well, actually, we believe that the capital efficient products offer both, growth and capital return, because the construction of the products allows us actually to run more attractive investment portfolios for our customers. And hence, the long-term customer return has improved compared to our traditional product where you are with the ALM and the low-yield environment always -- almost falls to end up in fixed income only. So therefore, we really see it as the right application for the industry. Selling just a wrapper of our own unit-linked is not what an insurance company can focus on. Then you can -- then the customer can go to an asset manager. Actually, we have a very good one. And we can sell our Asset Management mutual funds directly to the customer, so it is not covering the same need of the customer. Therefore, we are a strong believer that when the Life Insurance industry wants to have a right to exist and to cover customer needs, you need more than unit-linked. That is our philosophy. I know that the philosophy is not fully shared by others. And I also admit that we have also markets where we are relying still too much on unit-linked business, and I'm not against unit-linked, but it is not good enough as a long-term strategy. That is what I'm saying. And we will, in the countries where we are currently too much dependent on unit-linked, certainly introduce also our capital-efficient products. And therefore, in our disclosure, we're keeping it clearly separate from the unit-linked box because we see it as 2 long-term Life Insurance business and opportunities for our industry and not just saving capital and shifting the investment risk to the customer. In Asia, yes, we see Asia...

Nick Holmes
Societe Generale Cross Asset Research

Sorry, a quick follow-up to your comment there. Do you think therefore, that the growth prospects in LIfe will actually be quite good from the shift to capital light?

Dieter F. Wemmer
CFO & Member of Management Board

Yes, definitely. Otherwise, we should change our strategy immediately because a company which doesn't grow, dies.

Nick Holmes
Societe Generale Cross Asset Research

That's great. And sorry, with Asia?

Dieter F. Wemmer
CFO & Member of Management Board

With Asia, yes, we are expanding our bank distribution in Asia, in Southeast Asia, in particular. Well, Korea was actually not anymore an Asian growth market. Korea is a matured market. Therefore, when you buy and invest in businesses in Asia for high growth, then Korea is probably not the place where you would start. And in Taiwan, we have not reduced our new business capabilities at all. We have sold a legacy book, and we are not transferring any employee, and our new business machine is completely intact and will continue to grow the business. Taiwan is a great place for gathering and accumulate assets. We are, I think also on the Asset Management side, in combination between PIMCO and AGI, the largest foreign asset manager in the country with a very good market share and a very good growth perspective, so that is certainly a market we like a lot. And otherwise, at the Southeast Asian places, we are growing our business. China is a longer discussion that would probably now go beyond the time we have for the call.

Nick Holmes
Societe Generale Cross Asset Research

But would it be correct to say that you do see material investment opportunities in Asia? This is a territory that you're looking...

Dieter F. Wemmer
CFO & Member of Management Board

I would say good investment opportunities with work material in context of a corporate mix, EUR 120 [ph] billion revenue and EUR 6 billion net income, plus the work material is always a big word.

All right, it's already half past 3, so I guess we have time for one last question, please. If there's any.

Operator

Yes, we will now take our last question from Vinit Malhotra from Mediobanca.

Vinit Malhotra

Just in the P&C -- just one on P&C, please, and then one on PIMCO and one on LIfe. All quick ones. P&C, the attritional improvements that we used to talk about from the turnaround operations, that slide was sort of not here because of the compact structure. If you could comment on that just so that we see how the 94.5 goes to 94, if that's still the thinking on the operational side.

Dieter F. Wemmer
CFO & Member of Management Board

Vinit, you are really hard to understand. Somewhere, your line is broken -- breaking in and out.

Vinit Malhotra

Is this better?

Dieter F. Wemmer
CFO & Member of Management Board

Yes, yes. Maybe can you repeat your question? I couldn't get it.

Vinit Malhotra

Of course, sorry. So on the P&C, the 94.5 going towards 94. So in the past, there used to be a slide showing the 3 buckets of combined ratios, and there was a focus also on the turnaround units. Is there still that kind of focus? Or it's just the quarterly compression of slides that we haven't seen yet?

Dieter F. Wemmer
CFO & Member of Management Board

You mean our chart with various categories? Yes. So we are still having the same focus and nothing has changed there. We will drive our business the same way as before. I see you all made a strong point for the additional appendix, which I really think we surely are overloading you with information. So it is unchanged focus, and the units which are on the list, above 112, you can see it easily, it's Brazil and Argentina still stick out there and as the main areas. And at the moment, AWC, it's also moved above 100, so we have to watch out, as some of you also observed, that we have to see that it's getting back on track. That are actually the main areas to focus on. Okay. And then you had another question on LIfe?

Oliver Schmidt
Head of Investor Relations

Asset Management.

Dieter F. Wemmer
CFO & Member of Management Board

Oh, Asset Management?

Vinit Malhotra

Yes, sorry. On LIfe -- or I'll take the Asset Management, first. So on PIMCO, when we track the monthly total return fund and the PIMCO income fund flow data, for the quarter, they seem to have netted out each other. And we keep reading about how various strategies are still attracting money. Where is this EUR 10 billion outflow coming from? I know it's a very good number and the trend is positive, but I'm just quite curious where it is really coming from.

Dieter F. Wemmer
CFO & Member of Management Board

I think that's mainly institutional who are adjusting the strategies in the environment, that has nothing to do with PIMCO's attitude. Your observation on that the 2 big ones are netting out is fully correct.

Vinit Malhotra

Can I ask one more, please? The French Group LIfe business, what was the motivation to write when the market was weak and the pricing was not good? Was just the growth you wanted, or...

Dieter F. Wemmer
CFO & Member of Management Board

This is mainly a renewal of old business. Well, we are following here the EIOPA definition of new and old. So it's 1-year contracts, therefore they show up every year as new business. But probably, most of these customers are with us the last 2 decades. So we keep our market share in this market and we -- I still believe we can also, in following years, agree to better rates with the customer and have the opportunity to price up this business. Otherwise, you are right. We should not continue all of these policies. We are not getting it to a pricing position where we want to have it.

Then, thank you, all.

Oliver Schmidt
Head of Investor Relations

From my side as well, thank you for joining the call. And we say goodbye for now. I wish you all a very pleasant remaining afternoon. Bye.

Operator

That will conclude today's conference call. Thank you for your participation. Ladies and gentlemen, you may now disconnect.