S&P Global
Market Intelligence

Allianz SE XTRA:ALV

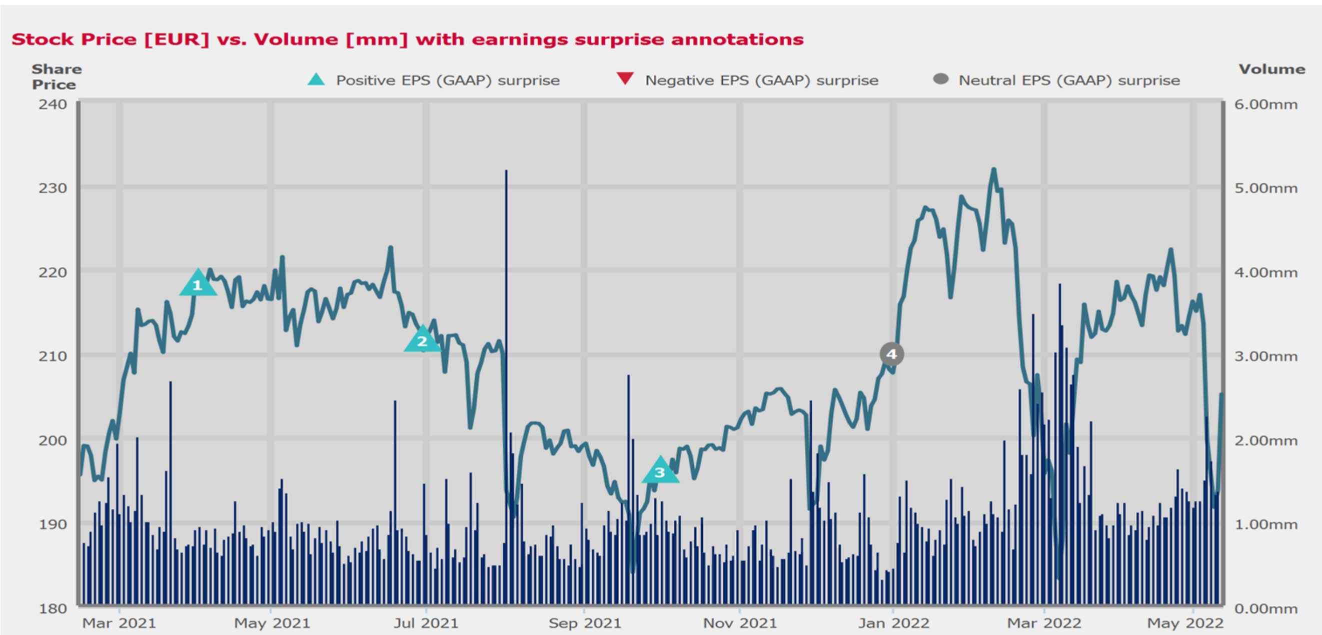
FQ1 2022 Earnings Call Transcripts

Thursday, May 12, 2022 12:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2021-			-FQ1 2022-	-FY 2021-			-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS (GAAP)	5.53	NA	NA	5.82	21.57	NA	NA	21.07
Revenue (mm)	37988.02	NA	NA	41821.29	143510.70	NA	NA	152027.52

Currency: EUR
Consensus as of May-11-2022 2:37 PM GMT



- EPS (GAAP) -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2021	5.18	6.20	19.69 %
FQ2 2021	4.33	5.22	20.55 %
FQ3 2021	4.26	5.01	17.61 %
FQ4 2021	5.53	(0.72)	NM

Table of Contents

Call Participants

EXECUTIVES

Giulio Terzariol
CFO & Member of the Management Board

Oliver Bate
Chairman of the Management Board & CEO

Oliver Schmidt
Head of Investor Relations

ANALYSTS

Andrew James Ritchie
Autonomous Research LLP

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

Peter Eliot
Kepler Cheuvreux, Research Division

Thomas Fossard
HSBC, Research Division

Vikram Gandhi
Societe Generale Cross Asset Research

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

William Hawkins
Keefe, Bruyette & Woods Limited, Research Division

William Fraser Hardcastle
UBS Investment Bank, Research Division

Presentation

Oliver Bate
Chairman of the Management Board & CEO

Good afternoon, everybody, and welcome to the Allianz conference call on the financial results of the first quarter 2022. Before we start the call, let me remind you that this conference call is being streamed live on allianz.com and YouTube, and that a recording will be made available shortly after the call. [Operator Instructions] All right. That was all from my side for now.

And with that, I turn the call over to our CFO, Giulio Terzariol.

Giulio Terzariol
CFO & Member of the Management Board

Thank you, Oliver. Good afternoon to everybody, and I'm pleased as usual to briefly present to you the results for the first quarter 2022. And after that, I'm going to take your questions.

If we move to Page 3, the underlying performance in the quarter was a solid underlying performance with a good growth in revenue, especially what is nice to see, it is that the growth in revenue is driven by the Property-Casualty segment with an internal growth of 6.6%.

When we look at the operating profit, the operating profit is slightly reduced compared to the level of last year. This is driven by the Property-Casualty segments where we had also a high amount of natural catastrophe compared to what we had last year. This has been partially compensated by a higher runoff but in total, we had a lower operating profit for the quarter.

On the Life side, we see a stable operating profit, which is definitely a good result, also considering the market condition and with EUR 1.2 billion, this is basically the outlook divided by 4, the outlook for the year, I mean, divided by 4.

And then in Asset Management, also a good operating profit with a growth rate of double digits compared to last year. Yes, the flows are negative, and this is driven by clearly the outflows at PIMCO, but considering the market environment and considering also the size of PIMCO, considering especially the change in interest rate during the quarter, we think that's a good performance from a flow point of view. And also, it should be highlighted that AGI had positive flows in -- also in Q1.

When we look at the net income, clearly here, we had a charge of EUR 1.6 billion because of Structured Alpha. If you adjust the numbers for the Structured Alpha charge, we are back to a level of, I think, EUR 2.2 billion, which is basically in line with what we would generally expect.

Now if we move to Page 5 on the solvency ratio. The solvency ratio has reduced by 10 percentage points. And to explain the development over the quarter, I will go straight to Page 7. So we're starting from 209% at the end of the year 2021. If you take the buyback into consideration, the starting point was 206%. And we had a percentage point of reduction in the solvency ratio because of the change in UFR.

The contribution from operating earnings, if you take the number after tax and after dividend, that's about 2 percentage point plus. And then when you look at the market impact, we have a minus 5 percentage points of impact due to market movement. As the pretax number, if you put this number after tax, that's a minus 2%. That's negative, even if interest rates have gone up because on the other side, the interest rate volatility has increased, the equity market had been down, then we have also an impact due to inflation to the Russia write-down and also to the downgrade of Turkey. So there were a lot of other elements that have more than offset for the increase in interest rates in the quarter.

And then, I will say, when you look at capital management, management actually here, we had an impact of the dividend buyback. And also, we took some management action in the sense of increasing our inflation-linked bonds, and this has a negative impact on solvency. It's not a big impact. We are speaking of above 50 basis points, but that's a small negative impact. And also, we have reduced our CDx hedge for credits spread widening, and there was another 50 basis points.

In Other, you see then the -- basically the impact due to Structured Alpha, and then also there is, as always, some noise coming from the model from exposure updates, also from the impact of the tax release. So I would say the major clearly item driving our Solvency II development was the impact of Structured Alpha. And also the market impact has not been positive, but it's been slightly negative because of the aforementioned reason.

Overall, we end up at about 200% solvency ratio, which is clearly still a robust level of solvency ratio, very much ahead of our, let's say, target ratio of 180%.

Now coming to Page 9 on the segment, starting from P&C. As I was saying before, a good growth rate of 6.6%. And as you see, basically, a lot of companies have contributed to the positive growth rates. There are a few exceptions, usually this is because of they need to do some cleaning in the [indiscernible], for example, the case for France. When you look at the GC&S, you see a negative number, but that's driven by the fronting business. So if you remove the fronting business, in reality, the growth rate at AGCS was basically 10%. That's also more in line with the change of renewal that you see on the right-hand side.

Speaking of change on renewal. As you can see, overall, the momentum is you can see positive change in renewable, also broadly better momentum compared to what we had in the course of 2021, and this is clearly also needed in order to respond to potential increase in inflation that we might see down the road.

When we move to Page 11 on the development of the operating profit, clearly down compared to the level that we had last year by about EUR 140 million. This is driven by the combined ratio. You can clearly see the impact of the nat cat, which was 3.5 percentage points higher compared to last year. You can also see the runoff is significantly better compared to what we had last year.

Last year, you need to keep in mind, we have been very conservative in the first quarter. And regarding the runoff that we see now, which is a little bit higher compared to what you would usually expect, this is a reflection of releasing reserves which were associated to COVID. I'm sure you're going to ask me later. I'm going to give you more details on this element.

And then when you look below, you can see the combined ratio by customer segments. In retail, you see a bit swings from 90% last year to 96% this year. This is driven mostly by nat cat and also to a certain degree also by the deterioration of the situation in Brazil.

On the other side, when you look at the commercial line, you can see a big improvement in combined ratio. This is partly a reflection of the runoff releases mostly driven by this COVID releases and also we have some underlying improvements in our commercial line.

Now when we go to Page 13, on the operating profit by entity, I will say that generally, you see -- when you look at the combined ratio, you see a good combined ratio in Germany, I would say, in France, Switzerland, Eastern Europe, also Italy with a good performance in United Kingdom and Australia. You definitely see the impacts due to the natural catastrophe.

And then I will say, Latin America, the combined ratio of 112% is driven by the situation in Brazil, which is not necessarily idiosyncratic. That's a situation that is affecting the whole market. I guess we can speak later about what is happening in Brazil and what we are doing there, which is definitely positive is the development at AGC&S with a combined ratio, 95%. And also Allianz trade had a very good results in the first quarter of 2022.

And this is part of -- due to the release of runoff that I was mentioning before, but then we need to consider also that we booked an amount shy of EUR 100 million for potential IBNR related to the Russian situation.

And with that, moving to Page 15 on the investment results. Overall, you can see there is a different trend compared to what we have observed in the last years. Now you can see the investment income is going up. And when you look, for example, the economic reinvestment yield, you can see an increase of 1 percentage point compared to what we had last year. So from this point of view, we expect to have, on these KPIs, some tailwinds. We also expect to have a positive deviation compared to the assumption that we made for our planning for 2022.

So overall, when you put together the numbers for P&C, we had an operating profit of EUR 1.4 billion, which is not very far away from the outflow divided by 4. There will be a EUR 1.5 billion number for the quarter considering also the amount of nat cat and also the [indiscernible], in general, we have been, I would say, slightly on the conservative side. I think this is -- well, a good starting point for the conversation we're going to have in the rest of the year.

Now going to Page 17. On the Life side, we see that the new business margin is going up compared to what we had last year. That's not a surprise considering the rate environment and considering also the actions that we have put in place in the course of 2021 in order to get to a new business margin, which are reflective of our targets. So right now we are benefiting clearly from product features, which are indeed designed for an environment with even lower interest rates.

So overall, so the mix is the level that we like. So from that point of view, the new business management continue to be very, very successful, and the environment is making our work even more productive.

Now going to Page 19 on the operating profit, stable. And the EUR 1.2 billion is also equal basically to the outlook divided by 4. Considering the volatility of the capital markets in the first quarter, I would say that's a very good result. And as you see, basically, all segments have been either increasing in operating profit or at least keeping the level last year. With the exception of the guaranteed savings and annuity, this is the segment or the subsegment where we have also the variable annuity business in the U.S., and this is clearly explained in the deviation to last year. We know that last year, the markets were very stable. And this year, the market had been unstable. By definition, the VA business is going to produce better or worse results subject to the volatility of the equity market.

With that, moving to Page 21, on the value new business, it's up significantly compared to last year. That's driven by the new business margin because volume was more or less at the level of last year. And then when you look at the operating profit, I will say that you can see there clearly the swing in the profitability of Allianz Life U.S.A. because of the VA business. Otherwise, you can see a lot of consistency.

And in the case of CEE, you can see the impact of the acquisition of Aviva, which is contributing almost 50% of the profit of over EUR 100 million for the region.

Moving now to Page 23 on the investment margin. The investment margin has reduced by a couple of basis points compared to the level of the first quarter of 2021. This has also to do with the transaction that we did in the U.S.A. because clearly, we reduced the asset base that we have in the United States. And because of the way the profit source generation was for Allianz Life, Allianz Life is usually contributing higher investment margin compared to the other entities. So if you want, this is almost a mix issue adjusting for the mix the investment margin will be pretty stable at the level of last year.

What is more important, as you see, the guarantees are constantly going down. You can see now a reduction of 4 basis points compared to the level of last year. And you need to consider that on the yield, we are going to see more resilience clearly with the new environment. So from that point of view, clearly, if you have a more potential volatility of the equity markets, fundamentally, the difference between the effective current yield and the minimum guarantee should just improve over time and even improve more compared to the trend that we might have seen in the past. So overall, good results and stable results in the Life business.

And now moving to Page 25. We come to the Asset Management segment. Here, you can see that the assets under management have reduced by 5%.

And we can go straight to Page 27, where we are explaining the reduction of the third-party assets under management by more or less the same amount. And clearly, the major driver for the reduction in assets under management has been the movement of the markets due to equity market and also due to the rates going up. This has been partially offset by the U.S. dollar appreciation. And then when you look at the flows, we had negative flows at PIMCO, which again is not surprising in this kind of environment. And on the other side, EGI had good flows, which were mostly driven by the multi-assets development.

One thing, when you look at the right-hand side of the slide, you can see that the majority of the outflow. So basically, the outflows were coming from the separate accounts. These are also usually the kind of assets where the fee margin tend to be lower. So from a revenue point of view, I would say the reduction in run rate revenue is less when you look from this dimension as opposed when you look at that just from an amount of net outflows.

When we go to Page 29 on the revenue growth overall, clearly, you can see a nice revenue growth compared to the first quarter 2021. That's also because of the base effect. Clearly, the asset base that we had in Q1 2022 is significantly higher compared to the asset base that we had in the first quarter last year. And also then, you can see that overall, the fee margin has been improving compared to the last year level that's driven by PIMCO, partially because of mix and also partially because of the one-off last year, which was bringing down the new -- the fee margin. But overall, a nice increase in revenue compared to last year.

And clearly, when you had this kind of effects, at Page 31, you can see that the operating profit is increasing double digits. If you take the total growth in operating profit without adjusting for FX, now if you then adjust for FX, you have a growth rate of -- in the mid-single digits, so still good growth rates. And especially, the increase in performance has been evident at PIMCO, but also AGI with an increase in -- with an operating profit of over EUR 200 million had another very good quarter.

So overall, good results for the segment in Q1, which are not far from the outlook divided by 4. We need to consider that performance fees are generally coming at the end of the year. So from that point of view, usually having this level of performance in Q1 would lead us clearly to achieve easily the outlook.

In this situation, we need to see what is going to happen with the market volatility, but the first quarter has been definitely a good quarter for asset management.

Now going to Page 33. On the corporate, you can see a negative deviation compared to last year, but the numbers are in line with the expectation. The number last year was just simply too low. Usually, we are running at about -- at an expectation of about EUR 700 million to EUR 800 million of operating loss for the quarter -- for the year. So the number that we see in this quarter is in line with this kind of expectation that we have for the segment.

And now coming to Page 35. Clearly, the below-the-line items dominate, if you want, by the charge of about EUR 1.9 billion because of Structured Alpha. When you look at the other position, you can see that the net position, realized gains and impairment, has been positive, about EUR 150 million. We had some impairment clearly coming from Russia, but they were offset by realized gains, especially some realized gains coming from our Allianz X investment. And then when you put all together, you get to a net income of about EUR 600 million, again, adjusted for the Structured Alpha after-tax charge of 1.6, then I think it would have been EUR 2.2 billion, considering the market environment and also the entire situation, I would say, that's a good level of net income, which is basically in line with our expectation.

Now Page 37. As a summary, good underlying performance, clearly hit coming from the Structured Alpha situation. And then on the capital deployment, we have concluded as of end of April, the first part of the EUR 1 billion of buyback. And clearly, we are now continuing with the second part of the EUR 0.5 billion buyback. So from that point of view, we are continuing clearly in our capital deployment philosophy.
And with that, I would like to open up to your questions.

Question and Answer

Oliver Schmidt
Head of Investor Relations

All right. Thank you, Giulio. We will now be happy to take your questions. And we will take the first question from Peter Eliot, Kepler Cheuvreux. Peter, I think your line should be open now. Peter, can you hear us?

Peter Eliot
Kepler Cheuvreux, Research Division

Yes. Can you hear me now?

Oliver Schmidt
Head of Investor Relations

Yes. Perfect. Yes. Now we can hear you. Wonderful. Go ahead, please.

Peter Eliot
Kepler Cheuvreux, Research Division

Okay. So the first one, I'd just like to get your views on the sort of the outlook for yield. I mean you mentioned, Giulio, within your presentation. But I mean in non-life, obviously 5 basis points up from last year. I'm wondering how much of that is driven by the inflation-linked bonds you referred to? And yes, [indiscernible] is there? And then in Life, you guided to an investment margin of 75 basis points at the full year results. I'm just wondering if you could give us an update on that given the new environment.

And then secondly, I mean, since you invited the question on Allianz trade, I'm wondering if you could give us any more sort of detail on the reserve release and how you think your remaining reserving position there?

And then finally, on solvency, I mean you're still 20 points above your target in a very healthy level. But I'm just wondering given the dislocation that we had in financial markets in Q1, I'm just wondering whether you thought about sort of taking out any additional protection or derisking at any point or whether that was part of your mind given the level you were at?

Giulio Terzariol
CFO & Member of the Management Board

Sorry, so I'm not sure I understood the first question. I think I understood it. If I didn't, you can always ask me again. But -- so my understanding was you asked about investment in P&C and how much of that investment in P&C was driven by the inflation in bonds. I would say the impact, because the inflation in bonds was maybe about EUR 20 million, so it was not super substantial. But the area where we have increased our allocation to inflation in bonds is in the corporate segment.

And in general, I would say the increase in our investment income is coming partially from there. But just because the rate environment is different, you need to consider that in a quarter, we can reinvest about EUR 7 billion. The first quarter is even a little bit higher because you have more premium coming through. But I think that we have a sort of EUR 7 billion of reinvestments in a quarter. When you have a swing the way you are seeing and now clearly, this can provide some uplift right away. So I would say some impact due to the inflation in bonds. But I would say the majority of the impact is just coming from the fact that we had this amount of reinvestment. So I hope that was your question. And if not then...

Peter Eliot
Kepler Cheuvreux, Research Division

It was, Giulio. And I also asked to sort of part B to that question, whether you have any update on the Life investment margin guidance.

Giulio Terzariol
CFO & Member of the Management Board

Yes. Sure. Sure. And there was the other one. Okay. I got this is the second question on the investment margin. And I think that William is going to also ask me about that. That's the famous 70 basis points -- 75 basis points.

If you look at the 19 basis point, it's basically indicating that we had the kind of run rate also for the remainder of the year. It's going to depend a little bit on the volatility. If the volatility is going to reduce, I will say we have some room to go even a little bit higher. But on the other side, if the volatility is going to stay elevated, then I will say, we might bridge the 75 angle lower.

As you know, we have always the volatility coming from the United States on the VA. And also potentially, if rates continue to go up, eventually, there is -- on the Allianz Leben business, we have some derivatives that we use for Solvency II steering. And these derivatives, away when IFRS, they can now be completely matched through cash flow accounting. So there is a point where clearly that the derivative might create some accounting noise. So it will depend a little bit on what happens to equity market volatility, depends a little bit to what is going to happen to rate movements.

But if you ask me, if you take out the noise, basically that number of 75 basis points over time can just become better. I have, unfortunately, bad news for you. I don't think that this will be a number that we're going to have under the new IFRS 17. So as we are looking at the disclosure on the IFRS 17, we don't think we're going to be able to reproduce this kind of number. We are going to find other ways clearly to give you a sense about that topic, but we might not be able to give you this kind of KPI moving forward.

But the bottom line is this investment margin, clearly based on the product action that we have been taking. And also based on the rate environment that we see right now, you should expect us to have stability and even an increase over time. So that's basically the trajectory that we would expect to see on this KPI. But again, we might not -- we might have to think about a different way to give you a sense about this dimension in the future.

Then on the trade, I tell you, there were 2 items. First of all, we had released about -- I would say, the runoff that we had at Allianz trade was about EUR 100 million. And this is all part of the conservatives that we had during the COVID crisis. Because, as you might remember, we booked a loss combined ratio during COVID that was, I think, around 100%. And the reality, the claims trajectory has been the opposite. So from that point of view, there are definitely some margin there. And I believe that when you look at competition, we are also going to show some positive releases.

On the other side, we have basically both also in IBNR for Russia. So, so far, we didn't see a lot of claims. So minimum amount of claims coming from Russia. So I would say the 2 effects are broadly offsetting each other. And we also can also tell you that on the accident here, in general, we are now seeing a lot of claim activity. So from that point of view, we are feeling very good about the static combination, also about the strength of the balance sheet for Euler Hermes.

And then you had a final question regarding the Solvency II and also how we are thinking about the -- what could be the level right now and also how we are thinking about the Solvency II moving forward. I would say that the level right now, it depends. If you take this morning, it was definitely more or less in line with the 199 that we have here. As market goes down and up, it can be change, as I said a few times also in the press, it can change as we speak. But I will say that right now, it's going to be more or less at the level of the first quarter -- of the first quarter at the end of March.

Now clearly, we see there is volatility. So from that point of view, we need to be prepared that there could be more pressure in the Solvency II moving in the next weeks and months. And from the way we think about that, clearly, we also think about potential derisking. But what we have been learning also from past situation, volatility is sometimes, when you overreact, you end up paying just a lot of hedging costs without -- and then eventually, things are reverting.

So our philosophy is going to be not so much to react to volatility. It's just really about seeing what kind of structural decision we want to do on the asset allocation, considering that the different rate environments can lead to different decision about the asset allocation.

So our reaction now, and we are looking to that, is it will not be driven by how we feel the equity markets are going to perform next month, but whether we can think differently about our asset allocation because right now, we see that Clearly, there is more juice in the bonds. And this can change our asset allocation to a certain degree for -- especially for the Life business. So that's definitely something that we have on the agenda, and we are going to add this conversation indeed in the next weeks.

Oliver Schmidt
Head of Investor Relations

Okay. Thank you, Peter. And we will take the next question from Will Hardcastle, UBS.

William Fraser Hardcastle
UBS Investment Bank, Research Division

The first one, just thinking about retail motor specifically. I guess we've seen a lot of retail motor price declines across much of Europe, least levels lagging that of inflation, even if they're up perhaps. Can you help us to bridge the gap as to why that shouldn't drive some margin deterioration? I guess is there been a structural frequency benefit from driver behavior perhaps?

The second one is just thinking about operational inflation, thinking about -- there was a bit of a disappointment around the expense ratio. Can any of that be attributable to inflation in any way? Or is that more mixed? And perhaps, are you still confident of achieving the same trajectory versus prior guidance on expenses?

Giulio Terzariol
CFO & Member of the Management Board

Yes. So thank you for the question. So when I look more to retail, the only country where we see pressure on the rates, it's in the U.K., which is also because of the dual pricing. Otherwise, when I go through our statistics, I can tell you that I see good rate changes in France. I see also good rate changes in Germany, Australia; also good rate changes, Spain; also good rate changes. So -- and then, I would say, Italy. Well, in the past rate changes has the tendency to be negative, at least now they're turning positive.

So I will say, your point is valid for the U.K., but we don't see the same trend in other country. Then clearly, if you ask me what we need to watch as we look forward is what kind of inflation we're going to get. For the time being, we are not seeing a significant increase in severity. And I'm referring here to motor but also to other lines of business, but clearly, we need to pay attention to what the future severity might be. To this point, we have been kind of preparing, but I can tell you that for the time being, the great increases we are getting in general, then there is -- there are always exception here and there, but the rate increases we are getting are aligned with the amount of severity of frequency that we are seeing.

To your question regarding the expense ratio, first of all, the increase that you see, the slight increase in expense ratio that you see in Q1 is driven by mix and especially, it's driven by Allianz Partners. As you see, Allianz Partners had a significant increase in business compared to last year. That's because of the clearly COVID recovery, and the expense ratio of Allianz Partners is higher compared to the expense ratio of the rest of the group.

And especially the expense ratio in travel for Allianz Partners is higher compared to the experience ratio they have in other line of business. So that thing is driven by partners. If you remove partners, you should see a slight decrease in the expense ratio compared to last year.

To your question -- so there is no impact in inflation on the expense ratio yet. This is something that might potentially become an issue more as we go into 2023, and it's going to depend a little bit also on the wage inflation that might come through. And wage inflation might be different country by country, might be different also based on the agreement that's in different country, you might achieve with the labor union. So my take is we are going definitely to see some inflation increase in our expense basis.

And to this point, clearly, part of this expense inflation increase is going to be offset also by rate increases because you need to consider that clearly, there will be rate increases. And then clearly, we are going stay to work on our expense management actions. So there is bottom line, no change in our guidance with respect to the targets that we had given ourselves for the expense ratio reduction over the next 2, 3 years.

Oliver Schmidt
Head of Investor Relations

Thank you, Will. And we will take the next question from Will Hawkins, KBW.

William Hawkins
Keefe, Bruyette & Woods Limited, Research Division

Giulio, can you hear me?

Oliver Schmidt
Head of Investor Relations

Yes. Yes.

Giulio Terzariol
CFO & Member of the Management Board

Very well.

William Hawkins
Keefe, Bruyette & Woods Limited, Research Division

I'm sorry, I'm going to disappoint you and not ask about Life. Can you -- thank you for what you've just said about inflation in general. I'm kind of assuming you guys maybe underweight social inflation risk in the U.S., but I just wonder if you could talk about how you're thinking about that. And also how topical in your mind the issue of litigation finance is in that equation. As for all insurers, on the one hand, you may say you want nothing to do with it because it accelerates inflation and you want to avoid that. On the other hand, you could argue that it's a useful hedge. And given that you're already investing in inflation-linked bonds, it's kind of complementary to that in some way. So how are you thinking about social inflation and litigation finance in that context?

And then secondly, please, all of us said a load of really useful stuff at the beginning of the year about how you think about tail risk and diversification and the rest of it. Could you kind of just give us a bit of an update of where your thinking is with regards to refining the focus of the business in Allianz. You don't really need to worry about diversification because you're spread so far, but that means there are so many moving parts. What kind of top of your mind at the moment in terms of refining the focus of Allianz?

Giulio Terzariol
CFO & Member of the Management Board

Yes. So maybe on the litigation finance, that's something that we are not really talking about within Allianz. So there will be clearly mostly a topic for GC&A. So I will say I take your comment, and we're going to double check whether this can be used as a hedging, but this is not something that is on my rate. I will not be able even to speak in a competent way about the topic, but I'm going to clearly address this issue with [indiscernible] sense, what this can mean for us.

On your social inflation, that's something clearly that we are considering, right? So we need to be ready that the inflation increase that we see and we see also in the United States has to be carefully considered. And from that point of view, clearly, we keep a cautious stance in reality on liability financial lines in the United States.

And it's very important that you put the right capacity, not getting too much exposure to date and also make sure that the rate increases are going to be there. Otherwise, our experience, as you remember, with financial lines and liability in the United States has not been a great experience, and it's been also a recent experience. So that's definitely an area of focus. Because we know when inflation is coming, this is going also to push definitely social inflation.

But for the time being, we don't see now any particular problem when we look at our book. But clearly, this is something that we are going to monitor and our appetites remain cautious.

On your question regarding the tail risk for what we are doing there, I will say that there are 2 elements. One element, we are continuously putting a lot of effort around what could be accumulation risk also on the P&C side, what could be on the cyber risk. So these are all kind of elements that where we'll continue to refine our scenario. But part of the conversation about the tail risk, it was really about how we can avoid in the future to have the kind of last one that we had with the Structured Alpha issue. So that's part in reality maybe the most important part of that conversation about tail risk.

So it's not so much about, honestly speaking, the how much Solvency II sensitivity we might have, how our cat program is organized within these things. We are clearly always refining. It's really about how we can avoid in the future that we might have this kind of Black Swan event. And to this extent, yes, we are having a lot of conversation about the company. You always do the top risk assessment, and you go through a lot of thinking about what your top risk might be, what the mitigation are. And we are putting a lot of effort in thinking how we make this work that we are already doing, which is high very importance for the group, how we make this process even tighter moving forward. That's the major area of focus also for me personally.

Oliver Schmidt
Head of Investor Relations

Thanks, Will. All right. We will take our next question from Michael Huttner, Berenberg.

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

And yes, Structured Alpha, COVID reserve releases and 199% is that enough. Those are my 3 questions.

So Structured Alpha, [I could] find what are the consequences you spoke about in that [indiscernible] yesterday in the press release. The -- and what's -- given a big hole in balance sheet. So maybe you can give a bit more background to what happened and how far and how close we are to find a settlement and what that might be?

COVID reserve. When you said [indiscernible] you've already had? You said some is coming through in trade, and I just wondered when you might see some COVID reserve releases from the underlying. So if I remember correctly, there must be about EUR 800 million left or something in AGCS? And the 199% is that enough to do buybacks in the current buyback. And then, of course -- sorry, the last topical question. What are the flows today in PIMCO and Asia?

Giulio Terzariol
CFO & Member of the Management Board

So Michael, I understood there was a question about Structured Alpha. Then there was, if I guess, a question around COVID releases. And was a question...

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

Yes. COVID releases...

Giulio Terzariol
CFO & Member of the Management Board

Then flows for PIMCO, AGI and buyback.

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

And is 199% enough? Because I'm really disappointed that it's still the same today as Q1, I'm kind of thinking, anyway.

Giulio Terzariol
CFO & Member of the Management Board

Yes. So the answer on the -- let me start from the last one, the answer on the buyback, yes, absolutely with a solvency ratio 199%, there is no problem to do a buyback. I want to give you a perspective, another buyback of EUR 1 billion, I'd say it's a couple of percentage points of Solvency II. 2 percentage points of Solvency II, honestly speaking, is a small movement of the interest rate volatility or the interest rate and so on. So we need to put everything under the right perspective.

And again, for us, driving also the capital management philosophy and buybacks, which are part clearly what we do is not just a consequence of things happening to us is also a target. So from that point of view, we need to work harder to get to do some buybacks. We are going to do it. It's very important. It's not just that we're sitting here and things happen to us and then we say, "Oh, we cannot do a buyback." We are clearly working in order also to make sure that we can deploy capital according to certain level of expectation. So -- and again, it's a 200% solvency ratio. There is no hesitation about doing or not doing buyback.

On the flows for PIMCO, I tell you, in the month of April, there were about EUR 6 billion negative. So it's still clearly a negative number. In the case of AGI, they were slightly positive. So we see a little bit of a continuation in the negative outflows at PIMCO.

I have to tell you, totally relaxed about the outflows at PIMCO. Clearly, it's not going to be helpful as we think about the next quarter or maybe as we think about 2022. But if you think about the environment, clearly, eventually for PIMCO, it's going to be a very good environment to operate. And I really strongly believe that the outflow today are going to be the inflows of tomorrow because people are going to be on the sideline now. You might not come to the idea to invest in a bond fund right now, if you have an expectation that rates are going up and then they stay a few weeks. But eventually, when people are going to say there's a new label, then you're going to see a lot of flows.

So fundamentally, and we always said that, yes, this can be a little bit painful in the short term, but that's definitely not paying for the opposite as you look a little bit across the cycle, let's put this way. So from that point of view, we don't see really this flows at PIMCO as a concern. And if you ask me, I also really believe they are moderate compared to the kind of outflows you might see in a situation where it's going up, and there is this expectation that rates go up.

And for AGI, still a positive month. So now it's becoming clearly a sort of track record for AGI to have positive flows.

On the COVID situation, I will say there is still room clearly for us to release some reserves. It's going to be also function clearly of some proceedings. You know that are happening in different legislation. But if you ask me clearly, there is more possibility to see some releases. And also just maybe to say that increase in the positive run that we saw this quarter reality is coming from a true-up of our retro on COVID. So we are expecting to get some more recoveries from the reinsurance company compared to the conservative assumption that we had put during the COVID time. So that's also explained part of this positive runoff.

And then on the Structured Alpha, I feel you need to be patient to have more information about Structured Alpha. I can just tell you that the provision is taking care of the financial exposure related to compensation payment to investment and also any payments under -- for payments under any resolution for government proceedings.

On the final resolution and the implication for Allianz global investor, we need to wait clearly for the final resolution. There is no more that I can tell you at this point in time. The only thing I can add is that we are seeking for a timely resolution of this issue. And I believe that the way we confronted the situation, starting August 2021, it tells you that we have been -- we are really tried to be as fast as possible to put this behind us, but you still need to have some patience before we can put a definite closure to this topic.

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

Let me say patience -- I'm not patient at all. So I was talking, can you give kind of benchmark? Is it months, years, or decade?

Giulio Terzariol
CFO & Member of the Management Board

Benchmark or what?

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

In terms of -- is it months, years...

Giulio Terzariol
CFO & Member of the Management Board

No. I cannot tell you. No, no, no. I think it's going to be -- we are not speaking of months, let's put this way. We're speaking of less than months, if you ask me.

Oliver Schmidt
Head of Investor Relations

All right, Michael, thank you for your questions, and thank you for your patience. We will take the next question from Andrew Ritchie, Autonomous.

Andrew James Ritchie
Autonomous Research LLP

A couple of questions. First of all, an easy one. Could you just remind us on the details of your aggregate cat cover, catastrophe cover? I think that's one of the reasons why you're still very comfortable with the full year outlook. Just remind us when that kicks in and what the per event deductible is for that?

Second question, I appreciate the solvency is very strong, and you could fund another buyback given the solvency. If I just think about cash, though, the sort of remitted cash per annum that you've sort of indicated or you've been delivering is in the region of EUR 6 billion and EUR 7 billion. If I add up your outflows the dividend buyback, you're already doing the regulatory that defines flows/payments, I mean, I'm getting to EUR 7 billion. Should I care? Does that matter? Or should I not think about even looking -- adding up your inflows and outflows? I mean I'm just trying to understand, do you think about it in terms of short-term liquidity flexibility to, for example, do another buyback?

My only other question was on the Asset Management business. I appreciate 60% of the cost base is variable roughly. But on the 40% that isn't variable, there is inflation. I mean salaries are going up, at least that what other asset managers have said in their earnings results. So is there more and more of a challenge now on the cost income and controlling that in the asset management business? And so you were very relaxed on that at the beginning of the year. Is that slightly -- less slightly less relaxed on that now?

Giulio Terzariol
CFO & Member of the Management Board

Thank you. I never relax, it might be the impression, but that's the opposite of relax. Coming from the -- starting from the first question on cats, our aggregate is starting EUR 1.2 billion, and then we have EUR 500 million capacity. Now there is a deductible of EUR 30 million for every nat cat. So over the first EUR 30 million is anywhere on us, and then what is on top of the EUR 30 million goes into the aggregates. And the EUR 1.2 billion, we start getting as recovery of EUR 500 million.

So the way I look at that, broadly, we have a nat cat and with a relative budget of about 3.5%. I would say, when we get to the 4.5 broadly percent at that point, the aggregates should come into play. So I would say there is a 1 percentage point, more or less, of possible negative deviation that we might have compared to plan. And then we have the aggregate that will give a protection for EUR 500 million. That's the way I try to simplify the story.

One thing that to keep in mind is we see high investment income in Property-Casualty compared to our assumptions. So we -- in the EUR 6 billion of outlook, we had an assumption of EUR 6 billion of operating profit outlook for Property & Casualty. Our assumption was that we're going to add EUR 2.4 billion of investment income. We are going to be most likely a EUR 2.8 billion, maybe even higher if it continue to stay at this level. So this is going to be definitely an offset that within the Property-Casualty area, we're going to see, in the case, we go all the way up to the 4.5% nat cat and weather-related compared to our budget. So there is a little bit on the side there.

Then we need to see what inflation is going to do. But when you put together the different pieces, there is also this big offset that we are going to have coming from the investment income.

Then you had a question about cash. I would say cash is not a constrain. And just to give you an idea, keep in mind that because of the Lucid transactions, we got already now a slightly more than USD 4 billion in dividend. And so this is also something what to consider. In general, we see healthy cash flow generation from our companies that are -- there is always excess capital that we try to tap into, but just consider that the Lucid transaction, the transaction in the United States has generated a significant amount of liquidity for the group. So cash is actually not constrained.

And then coming to the topic of inflation. You were referring indeed to inflation asset management. Yes, in PIMCO, for example, we had to run higher salary increases compared to what we had in the past. But as you see, when you look at the cost/income ratio, for example, of PIMCO on the cost/income ratio for the quarter has been actually pretty good. So yes, we might have some inflation pressure.

But as you see, we have also clearly other levels that we can check in order to try to keep the cost-to-income ratio stable. But it's more work to do, obviously. And when you have some headwinds, and you need to work a little bit hard on other levels in order to get to the desired outcome.

Oliver Schmidt
Head of Investor Relations

Thanks, Andrew. We will take our next question from Thomas Fossard, HSBC.

Thomas Fossard
HSBC, Research Division

Just one question left on my side, which will be related to your strategy in the U.K. P&C. Can you dig a bit more what you're currently doing in the U.K. since actually, prices are -- look to be relatively flat. You're growing 5%, but I've seen the combined ratio shooting up by 9 points. So I'm not sure exactly what was driving this negative evolution of the underwriting profitability and what was potentially your stance regarding the upcoming quarters for the U.K.

Giulio Terzariol
CFO & Member of the Management Board

Thank you. Yes. So the growth that you see is not driving the combined ratio higher. Here, there are different elements. The growth is coming actually from commercialize, and that's a reality coming from rate increases in commercialized, then you're going to tell me, but Giulio said zero change on renewal for Allianz U.K. The reality is you have positive rate increases in commercial lines, and you have negative change on renewal because of dual pricing in retail. So the growth is coming from commercial lines and it's coming from rate increases. And then clearly, there is some pressure on rates because of the dual pricing.

And our strategy -- and then you had a nat cat impact, right? You need always to consider the nat cat has been more elevated also compared to last year, but also compared to what our expectation would be. So what is our strategy in P&C commercialized, the strategy and also in SME, the strategy is clearly to continue to look for rate increases in order to make sure that we get to the profitability level that we like to see.

And it is not just about rate increases. Also, we are upgrading our expertise in commercial lines, but that is part of the equation just get into a different profitability level in commercial lines. And it's not about volume, it's about margin profitability. And the beauty is, in this environment, it's possible to get rate increases and have also a good level of retention.

On the personal lines side, it's about finding the price points. Because clearly, when you have this kind of changes in regulation, you need to -- clearly, you are looking for what you think is the right pricing, but then you need to also see what the competition is doing. And so I think especially in the first quarter, there was definitely some movement up and down in trying to find the right price point in the sense of what you think is the right technical price, but then you need also to look at what the competition do and try to position yourself in a way that commercially still viable.

I believe we are going to see clearly more stability as we go into the second and third quarter because the entire market is going to have more experience about what the dual pricing is -- change is doing.

One thing to keep in mind, I believe that inflation dynamic is a little bit more pronounced in the United Kingdom. So this might add a little bit to the complexity to find the good price point in retail. That was clear?

Thomas Fossard
HSBC, Research Division

Perfect. Thank you, Giulio.

Giulio Terzariol
CFO & Member of the Management Board

Welcome.

Oliver Schmidt
Head of Investor Relations

Thank you, Thomas. We will take the next question from Vinit Malhotra from Mediobanca.

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

So I have 2 questions on Life and one on solvency sensitivity. So on the Life, what we are noticing is the technical result was probably the highest I have seen in, well, many quarters being reported, north of EUR 420-odd million. Is there any element you'd like to fly here? Or is it more about, yes, it's what was meant to happen because we sell preferred products. And I'm asking also because in the CMD, one of the positive surprises was that Life was being given a more push. I just want to understand the thinking there and also these numbers.

Second topic, Life was -- we've done in the prior reporting about convergence in the full year results of convergence of Life Asset Management. And since then, obviously, interest rates have had pretty strong move. How is that thinking there? Is that still an idea to try to do something as a converged? Or is it more because you'll see those 2 offsetting each other high rates, better for Life and short term, not good for Asset Management. So just a topic out there.

And last is that -- and this might sound a bit tricky, but the interest rate sensitivity. So your objective for a few quarters or maybe a year or 2 has been to lower the interest rate sensitivity. And congratulations, you are doing that. It's about 2 points of solvency as I can see. But is it worth reviewing the strategy and given what the market is doing and outlook for interest rates?

Giulio Terzariol
CFO & Member of the Management Board

Yes, maybe I start for the technical margin. In reality, the increase in technical margin in the quarter is mostly driven by the transaction in the United States because basically, there is the amortization. Their reinsurance commission goes through the technical margin. That's where we are putting the amortization of the reinsurance commission.

So that's, in reality, the major driver. This is clearly the improving or increasing loading fees, and increase in technical margin is part of our strategies to move -- we move forward. But for the quarter, I'll tell you, the big increase is driven by the technical effect of where we are showing the amortization of the insurance commission related to the Lucid transaction.

Then on your question about the convergence between Asset Management and Life, the fact that rates are going up is not changing, that's thinking as a strategy where we really believe that by combining our footprint in the Life business and also what we have built on the Asset Management, we can tap a lot of the value chain. So it's really about this idea of tapping the value chain between what's our manufacturer from the product point of view can do and what we can do on the asset side.

And as you might know, so we are producing a lot of revenue in our Asset Management business coming from the fact that they are managing our proprietary assets, where we did a calculation that if you add those revenue after cost to the ROE of the Life business, we will get a lift in ROE on the Life business of 1 percentage point. And the point is we want clearly to continue to play this kind of strategy and make it even stronger because there is definitely some value that we can create by having control of a large piece of the value chain.

And in a lot of countries, we are also owning the distribution. So basically, we are owning the entire value chain from the customer to the Asset Management.

And the last question was about the sensitivity. It's very tempting to a certain degree to say rates go up, let's start changing our duration gap and maybe open up more of a gap, all these kind of things, but that can be very tricky. So from that point of view, I don't think that we are going to yield to the temptation to go into interest rate bets. So we are going to keep our philosophy that we try to be duration match, and we are not going to run a risk that we might be on the wrong side of the equation. There's no sense in that we do that.

The thing that we will consider is clearly in a different rate environment. Can we think differently about the strategic asset allocation, but we are not going to have a different thinking about duration positioning.

Oliver Schmidt
Head of Investor Relations

Okay. Thanks, Vinit. We will now take the next and actually the last question from Vikram Gandhi, Societe Generale.

Vikram Gandhi
Societe Generale Cross Asset Research

I hope you can hear me all right. Just a quick one. I wonder what's the level of consistency in terms of the inflation impact between what we see on the Solvency II and what we see in the IFRS numbers? The reason I asked this is, there's a comment saying that there was negative inflation impact on Solvency II for the quarter. But what I'm trying to get to is, is that the level of inflation embedded in the results on the IFRS as well? Or it's a different math with some of the related results under IFRS, which are not in Solvency II. So any color there would be helpful.

Giulio Terzariol
CFO & Member of the Management Board

No, it's a different math. And basically, there is not necessarily an automatic inflation impact in IFRS in the case of Solvency II. In some Life businesses, you need to adjust automatically the expense assumption based on the inflation. The economic scenario for inflation, this leads basically to a small reduction of the own fund. But that's a specularity of the Solvency II calculation in -- for some businesses, you don't have the same treatment under IFRS 4. So it's just for solvency purposes.

Oliver Schmidt
Head of Investor Relations

All right. We do not have any further questions, so this concludes today's call. Thanks to everybody for joining. We say goodbye to everybody, and wish you a very pleasant remaining afternoon.

Giulio Terzariol
CFO & Member of the Management Board
Okay. Thank you for your time and have a good rest of the day. Thank you, guys.