S&P Global
Market Intelligence

Allianz SE XTRA:ALV

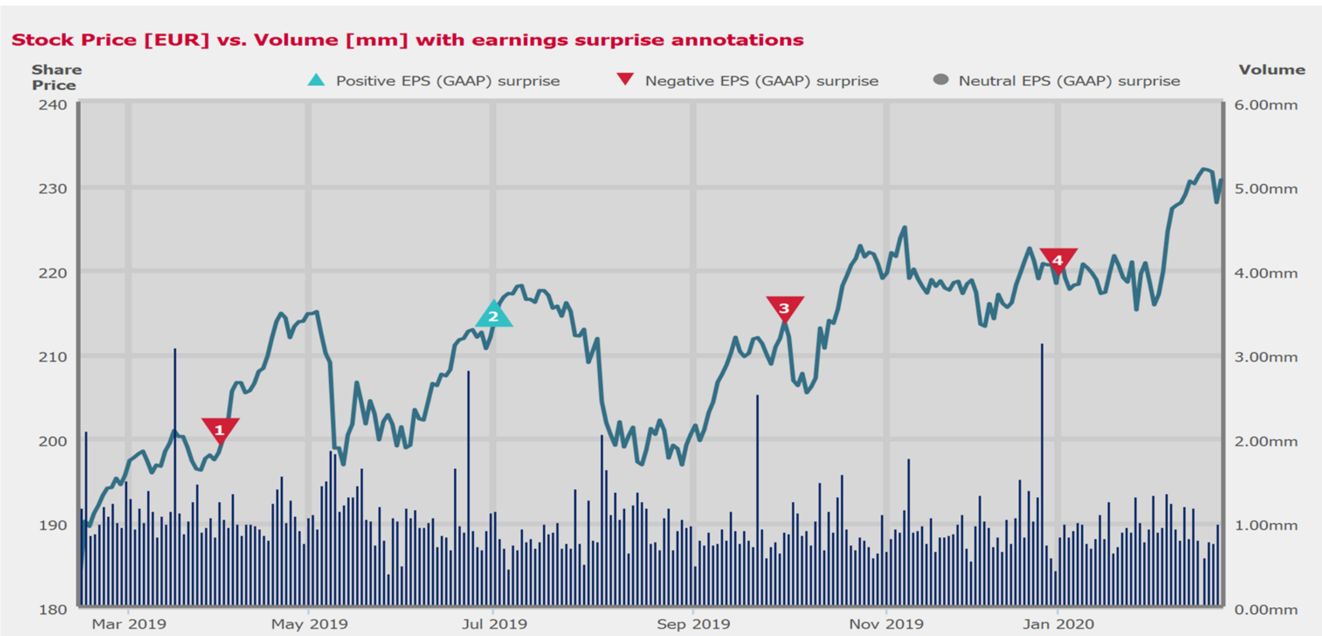
FQ4 2019 Earnings Call Transcripts

Friday, February 21, 2020 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2019-			-FQ1 2020-	-FY 2019-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS (GAAP)	4.54	4.44	▼(2.20 %)	5.70	18.63	18.83
Revenue (mm)	33751.49	35500.00	▲5.18	34561.39	137681.58	142400.00

Currency: EUR
Consensus as of Feb-21-2020 12:41 PM GMT



- EPS (GAAP) -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2019	4.68	4.65	▼1 (0.64 %)
FQ2 2019	4.22	5.10	▲2 20.85 %
FQ3 2019	4.71	4.66	▼3 (1.06 %)
FQ4 2019	4.54	4.44	▼4 (2.20 %)

Table of Contents

Call Participants

EXECUTIVES

Giulio Terzariol
CFO & Member of Management Board

Oliver Bäte
Chairman of the Board of Management & CEO

Oliver Schmidt
Head of Investor Relations

ANALYSTS

Andrew James Ritchie
Autonomous Research LLP

Ashik Musaddi
JP Morgan Chase & Co, Research Division

Farooq Hanif
Crédit Suisse AG, Research Division

Jonathan Michael Hocking
Morgan Stanley, Research Division

Peter Eliot
Kepler Cheuvreux, Research Division

Unknown Analyst

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

William Hawkins
Keefe, Bruyette & Woods Limited, Research Division

Presentation

Operator

Ladies and gentlemen, welcome to the Allianz conference call on the financial results 2019. For your information, this conference call is being streamed live on allianz.com and YouTube. A recording will be made available shortly after the call.

At this time, I would like to turn the call over to your host today, Mr. Oliver Schmidt, Head of Investor Relations. Please go ahead, sir.

Oliver Schmidt
Head of Investor Relations

Thank you, Ian. Yes. Good afternoon from my side as well, and welcome to our conference call. We have 2 presentations today, so I keep it brief and turn directly over to our CEO, Oliver Bäte.

Oliver Bäte
Chairman of the Board of Management & CEO

Thank you very much and thank you for joining on a Friday afternoon.

I have a few slides to present on overall results and where we are on our journey, and then Giulio will, in high quality, as always, go through some of the numbers. The content of what I would like to present to you is highlighted on Page A-2. I will lead you through the pages as we are on our call. First, a quick overview on the achievements for the year 2019, then a little bit of us talk -- talking on where we are in our journey, Renewal Agenda 2.2 and targets and outlook for 2020 and how do we think about that.

Let me move to Page A-3. This has been the fifth year of another record in operating profit, and we are at EUR 11.9 billion, 3%, you may say only up, but it's quite something to continuously go up on that number. Revenues have crossed the EUR 140 billion line to EUR 142 billion, that's 8% up. It means basically more than double the growth of the global economy. And shareholders' income is up 6%, again, almost to a record level. 2007 was the highest. We are crossing that, too. And our earnings per share, up 8% to EUR 18.9. Dividend per share, as proposed to the AGM, would be around EUR 9.6, 7% up. Our solvency ratio is back to a very strong level at 212%. Our return on equity have reached also an all-time high with 13.6%, and total shareholder return for 2019 was 30%.

So with that, I can hand back to Giulio -- no, I'm not going to do that. But I thought it's such a pretty cool page that we can sort of end here and be fine. Now I know we have a little bit more to do because we are not just talking about the past today and the year, but also what we are going to do going forward.

So let me turn your attention to Page 4 and let's see how we're doing. We have targets for operating profit, earnings per share and dividend per share. And you see, relative to what we are trying to do on our targets and what the implicit absolute targets are, I think we are overall fine. But let me go through the individual components. Operating profit relative to what we are trying to achieve, I personally assess us to be good. The issue is, and we'll talk more about it, that AGC&S has clearly been disappointing, as it has been, by the way, in the portfolio commercial lines at large. After many years of declining claims inflation actually, we've seen a continuous increase in global claims inflation, and it shows a little bit how industry is rattled by many, many things and also by particular events in the liability lines, and we'll talk more about that later. However, the reason why I'm confident is we have really understood what's going on. We are taking very strong action, have been taking very strong action, and we are really seeing the benefits, whether that is from price increases or portfolio increases or change in wordings, so the improvement will be measurable. The issue is only how quickly will they sort of come into the earnings on the one hand and declining losses over the next few quarters. Earnings per share I think is fine. That's something that we really, really established in 2015. That is very strong discipline around the use of your capital. I think that's something that we want to continue to communicate. We've had very good internal growth. And the capital discipline, ladies and gentlemen, is here to stay. It's not been 3 years. It's been 4 years. It is becoming a part of our culture, and we want to get better and better at it.

Are we yet at the end of the rainbow? No, we are not. There is more questions around do all of our business earn the proper returns. We are focusing on that more and more. So again, there's more to be done, but that also means there is more upside. And dividend per share, I'm very proud of all of our people that work very hard to deliver to you the seventh increase in dividend in a row. We all saw not a small feat and also shows the consistency. As we said, we share the capital productivity with our shareholders, and that's why we announced the share buyback yesterday.

Now some people say, "We're already accustomed to it. And is that good enough?" I think being good enough is never good enough, but we are very consistent. We have no incentive to keep the money that we don't need to run the business. And due to very strong action on the solvency side after the August surprise and -- of interest rates getting negative and us being able to go back to 2000 -- to numbers that are very much in what where we'd like to be, I'm very happy that we are not just able but determined to bring capital back to you.

Now Page #5 give you a few details in terms of how we think about that. The one thing I'd like to mention is on Page A-5 to the lower left. Often you ask, "Oliver, Giulio and team, is your M&A and what you've been doing the last few years actually producing value?" And we report on that. I think we did a very fine job on the U.K. acquisitions. We have done a nice job on Latin America and what we have done in China, but people said, "Didn't you pay too much on Euler Hermes when you did the minority buyout?" We are planning to free up about EUR 0.5 billion in capital and upstream that to us. And when you then look at what this will do to ROE, just for Euler, it will improve ROE by a whole of 2 percentage points from 12-point something to 14. So that acquisition, so to speak, and that investment is surely turning into value creation over time as well.

So the last investments that we've done on an external side as much as the internal one are producing value, and that is very important for you to know. We will apply the same discipline on future M&A transactions if and when they arise. As I always said, we only do things that really makes sense for us over time. And I don't want to spend any more time on the other things that we have on this page, not even on the share buyback. Remember, our dividend that we continuously increase comes with a ratchet. Again, most investors do not remember that it is very important to remember, in 2011, when we had the surprise around Greece and the euro crisis, we moved to an 85%-or-something payout ratio because we had the ratchet in.

So you're getting the dividend, you're getting the ratchet and you're getting the share buyback on top of it. And that you see on Page #A-6, so we basically paid out more than EUR 25 billion over the last 5 years, and you see the components, how that adds up through dividends and share buybacks.

So much for numbers, capital discipline and how we are thinking about your money. Now, let's talk a little bit how Allianz has performed. As you know, we find it very important to balance all the stakeholders. And we know that the ability to pay dividends and generate net income is dependent on how we are outperforming vis-à-vis our clients

Vis-à-vis other constituents and our people.

Page #7 shows you that we are working on these dimensions in parallel. As of last year, we are, on all the relevant KPIs, the #1 brand in our industry. We have the strongest rating in our industry. And we are #1 in sustainability as seen by the major indicators. And we find that very important because they talk to you a little bit about also how sustainable our business model is overall. So one thing is to talk about the past and strong delivery on a consistent basis, the other one is how resilient is the organization to do that.

Now the Page #8 gives you a few more insights. One thing I'm very happy about is what we did last year, we crossed the 100 million direct customer barrier, something that's very important for us. By the way, on top of that, we have more than 200 million clients that we have through B2B2C. How do we think about the quality of our portfolio? The NPS numbers in terms of outperforming business has dropped a little bit to 70 because of deliberate decisions in Turkey to increase prices and cleaning the portfolio, that has impacted a bit negatively and 2 companies in Eastern Europe. Overall, however, the most important number is to the lower right-hand side, we have the ambition over time that at least half of our business should be the #1 in terms of customer loyalty in their market. We moved this number over the last few years from about 30% to now 46%, so we're getting close. Alone, last year, this number improved by 6 percentage points. Now it will never be fully stable and only go up. There will be the idea where you go up or down, but the trend is pretty clear.

The same is on the employee side. So the way, as you remember, we measure our employee satisfaction and motivation is through our Inclusive Meritocracy Index. It's based on a annual survey we do with all of our people and is comparable to hundreds of large corporations around the world. We have already reached our 2021 target last year, 73% is world benchmark. I.e., the top companies are in that range, and we are very happy to be that or tell you, give you another one. We are now the world leader in terms of using LinkedIn Learning. So we are also investing in our people through digital means, just as an example of what we're doing with our people. So a healthy company has a healthy customer base and a healthy employee base.

Now in the case of Allianz, you all know that we have a very specific mission when it gets to climate and climate change. Just some data on A-9. Beyond our Net-Zero Asset Owner Alliance, a mission that we are on that we really believe in, we have had a neutral carbon footprint since 2012. And we are actually generating more and more revenues from sustainable solutions, be it in insurance or being it investments. And that is being rewarded again by the leading industry ratings, whether that's RobecoSAM or MSCI or FTSE4Good. So that is and will remain important to who we are and who we would like to be.

Page A-10. So you may ask, "Where are you actually in your transformation on the customer side?" We've told you, it's a decade-long journey, and it's very important that we know it's a very long journey. We need to deliver results, and we have already achieved our 2021 target for the expense ratio this year. Now there were some one-offs in that, for example, the canceling of the bonus pool at AGC&S, so you need to really normalize for that. You can always -- you always have to assume that you cannot have those strong momentum all of the time, but we are very, very happy how we have been able to move both the admin expense ratio and acquisition cost down over time. And we intend, as we said, 30 to 40 basis points on average is what we are trying to deal year-over-year.

Now what is driving that? The key thing is trying to simplify what we do. The first is to do that at the customer end because the key feedback from our consumers is, it is hard for us to trust you if you are so complicated, if products are not intuitive, and you're wasting our money with very complicated processes and systems. So bringing down the number of products, the number of product variations, the amount of paper that we sent out is super important. And then of course to bring the number of IT applications down. We've given you some numbers. Just by the end of 2020, we want to have 10% fewer IT applications in the group. And by 2021, we want to move to more than less -- to have than 20% less, sorry, on -- in our overall performance. That should immediately give us savings. EUR 100 million run rate is minimum that we expect by 2021. And to be honest, we need to accelerate that as much as we can. That is based on a simple notion, we would like to harmonize products and product process design across countries in a step-by-step basis. The upside is gigantic, again, both on the admin cost side and then on distribution.

Now M&A, we talk about it all the time. Everybody comes on, "So you can do anything you want, but don't buy anything big." Funny that you read sort of a Newswire article and says, "Allianz fails to do big deals." I think it's actually -- for many of you would say, that's a big success.

Now let's talk about what we've actually done, Page 11. The most important ones were 3 -- was what we have done with acquiring the sort of second half of LV in the United Kingdom and doing the portfolio with Legal & General. That is being executed and has moved us officially to #2 in the country. By the way, this is before adding in Euler and AGC&S, so there is even more that actually should be in the cake. The second one is what we've done in South America. We've discussed it last year extensively. We're now in separation, and that will lead us to be the #3 P&C insurer in the country, actually, #2 in auto. And Motor gives us the scale that we need to have in the largest economy in Latin America with more than 200 million people.

And as you know, we were the first to have the wholly owned foreign financial holding company, which is very important because we are going to build up our asset management and insurance asset management capabilities over time. And our joint venture with JD is working extremely well, far ahead of plan. And as we go into more liberalization once China is back in business, we'll also address the life insurance side. And that's why we have been taking a stake in the largest privately held company we have in China that is Taikang. So that's all of them. There's many more strategic ideas we have. We can't talk about them today, but China will remain on our priority list very high. Also, for asset management, that may even be a bigger opportunity than insurance. But it is going to take time. So before we're going to arrive at very high earnings from China, a few years will go by. But we need to keep on investing in what will be one of the biggest financial markets on this planet or already is in many ways.

Now Page A-12 gives you a nice little record on where we are and where we have been in terms of our ambitions over time. We had a target range coming from 2016, EUR 10.5 billion and going up consistently. For 2020, we are planning a midpoint at EUR 12 billion with the usual EUR 5 million -- EUR 100 million up and down range. And again, let me give an -- particularly what is already happening in the first quarter. This is before major distortions around nat cat and other major economic crisis. And that is very important to understand. We've also been able to overachieve our midpoint in the target, and we're obviously working hard to try and to do that, but that cannot always be guaranteed. It's just a matter of numbers and statistics.

Now let me give you one last page, that is A-13, because it is not really the only question whether we -- and what we do in 2020, but how do we think about the 2020 targets -- '21 targets that we out -- laid out last year. And we are sticking to these targets. It's very important. So the EPS growth is supposed to be larger than 5%, of which we would like to have 4% organic. ROE, north of 13% is clear and has been at record level, 13.6% this year, and we should be note of that of course going forward. The solvency II ratio, we've talked about. Customer centricity, we've also talked about. So we're working on getting to the 75%-plus range. And again, on IMIX, as I'd mentioned before, we are already where we want to be, but it's tough to stay there. So it's not going to be easy as we continue to transform this company. So overall is -- Allianz is very much on track to make its 2021 ambition despite the noise we've had in the P&C segment, and we will probably talk about that. There's lots of things going on in P&C to make sure that we improved the loss ratios, and everybody has hands on deck now.

And with that, I hand over to Giulio.

Giulio Terzariol
CFO & Member of Management Board

Thank you, Oliver. And we can move to Page B-03, and I'm going to give you a quick update on the fourth quarter results, and then I'm going to speak a little bit more in detail about the 2009 (sic) [2019] for the full year. So when you look at Page 03, our results for the fourth quarter, I will say that [Audio Gap] when you also look at the operating profit development in Life/Health and Asset Management and also when you look at the net income evolution. But clearly, what is sticking out in this slide is the development of the combined ratio with 99.6%. And this is mostly driven by AGCS. I'm sure we're going to have time to discuss this later, but otherwise, I will say the quarter looks pretty good.

And also, I'd like to highlight the new business margin on the Life side with 2.9% despite negative interest rates, that's a very strong message about the work [Audio Gap] that our production is profitable also in a difficult environment. And then also the flows in Asset Management have been again positive. And this was not just because of PIMCO, but also because of the contribution coming from AGI. So a lot of good things in the quarter. And then as you see also in the headline, we had the results strengthening at AGCS.

If we move now to Page 05. When we look at the full year and discuss in no surprise, our revenue has increased by about 6%. So you just see what we discussed already in the last quarters, and the growth in revenue has been driven by the Life business and also which is that and also by our Property-Casualty business. The evolution of operating profit where we got an increase of about EUR 350 million sees a deterioration due to the reserves strengthening at AGCS. On the other side, you can see the other segments have contributed to our operating profit. And this is again a sign of the strength, if you want, of our franchise, of our business model or the diversification that we can bring to the table. On the net income, you can see very good results. I think you know the number now. We are very pleased with the ROE of 13.6%, and we are also very pleased with the development of the earnings per shares.

If we go now to Page 07. The capitalization is strong. We discussed in the last quarter, so it's a reduction of the solvency II ratio because of the interest rate environment. And now you see in the fourth quarter when the interest rates have changed direction, at least for the quarter, the solvency ratio went up significantly to 212%, and the main driver is the development of the interest rates. And on top of that, we had also a model change. The business evolution in the quarter has been negative because of the AGCS strengthening and also because of a catch-up effect. I'm sure I'm going to get questioned on -- around this later also. I will use the Q&A to go into the technical explanation of what happened in the fourth quarter.

What is important, anyway, is really to look at the 12 months. So when we look at the business evolution over the 12 months, so we go to Page 09. When we remove the dividends and the taxes from our business evolution, that was 7%, add in the 1% because of the AGCS strengthening, that will an 8% of business evolution, which is a good number. That's also the guidance that we are giving for 2020. One thing to highlight, if we deduct the buyback pro forma from the 212% of solvency ratio, the solvency ratio will be 209%. So that's if you want the adjusted level, considering the pro forma for the buyback.

Moving to Page 11. We can see here the growth rate in the P&C business. And as you see, the growth rate adjusted for FX and also for consolidations has been 4.7%. The growth rate is driven 60% from price changes, and 40% of the growth is coming from volume. All entities have posted a positive growth with the exception of Spain. As you know, we've been cleaning the portfolio in Spain after the surprise of 2000 -- that we got in the course of 2019, at the end of 2018. The price changes on renewal are positive across the board, 3%. And these are also, I will say, price changes that are at least in line with the inflations and tax can be above inflation. Clearly, the development at AGCS is particularly important. And we say that the price increases that we are as we go into 2020 are in excess of the inflation that we are predicting. We are kind of cautious anyway on the expectation for inflation moving forward.

Page 13. The combined ratio for the year has been 95.5%. If you adjust the combined ratio for AGCS, so if you remove AGCS from the equation for 1 second, the combined ratio will be 93.5%. So when you look at, let's say, the group performance, excluding, if you want, the one-off, I will call it, of AGCS, we are indeed at a very good level, 93.5%. Also what is important is the evolution of the expense ratio. As you see, we have an expense ratio now of 27.5%. Oliver mentioned that before. If you think just 2 years ago, we were at 28.7%. So there is definitely a nice improvement. And I will say we are not done with looking for further improvement in the expense ratio down the road. So I will say, clearly, the combined ratio might look disappointing when you're looking at 95.5%. But again, if you look at how the majority of ROEs have performed, in reality, we have a lot of this to be very proud of, and we can see this at Page 15.

Germany is definitely doing very, very good. We had a combination ratio of 92.4%. Sometimes, I like to go back in history and there were times where the combined ratio in Germany was not 92.4%. That was maybe 5, 6, 7 years ago. So we should also recognize that we have been able, over the last 5 years, to achieve a massive improvement in a company, which is making more or less 20% of our net premiums earned. So this is not a small thing.

Italy is performing always at a very good level. In France, I will say there is some work to do. But to be frank, there was also a lot of volatility, large losses and weather-related in the fourth quarter. So the fourth quarter was kind of challenging for France. And then we are very pleased with the development in Eastern Europe. That's also a region which was operating at a very different level of combined ratio just a few years ago, and now we are below 90%. Spain, we discussed during the year, the results of Spain. We expect to have better results as we move into 2020. In the case of the United Kingdom

[Audio Gap]

combined ratio will be closer to 96%. And then AGCS, clearly, the number is very high, and the reserves strengthening is about EUR 600 million. If you look at the accident year combined ratio, that's slightly north of 100%. We also should recognize, however, that the nat cat activity on AGCS was very low. So in reality, if you normalize the number for AGCS, you might be closer to a combined ratio of about 105% on an accident year basis. So all in all, I will say, clearly, some work to do at AGCS, but that's not just Allianz, that's also market issues. And then most of the operations are delivering according to our expectation.

Moving to Page 17, the investment income. If you look at the interest and similar income because in the position of net harvesting, we have some volatility. When you look at the core or the investment results, that's very stable. And that's a good sign because despite the pressure coming from lower interest rates, we have been able somehow to maintain a stable interest and similar income. Clearly, as we move forward, we are going to see some reduction. But this also shows that we are not just exposed to the market dynamic. There are also things that we can do in order to mitigate the challenge coming from the low interest rate environment.

And now we can switch to the Life business at Page 19. First of all, we are very pleased with the new business margin, over 3%. And again, the interest rate environment in 2019 has been brutal. So let's -- we got negative interest rate for the majority of the year. Despite this development, we ended up at a good level of new business margin. The business mix is consistent with our target. And also, we have been able to increase production, especially in Germany Life; but also in the U.S., we had a good 2019.

Page 21. The operating profit for the Life business has been very, very good. As you remember, yes, we had also a couple of one-offs like the deck -- the change in deck in Q3 in Allianz Life, but there is also a strong underlying performance. I'd like to highlight the loadings and fees, which are increasing 8%. And clearly, not the entire amount of loading fees translates one-to-one into profit, but I will say about half of it is operating profit that should be sticking moving forward. So from that angle, I will say that also compared to what we thought when we put together the plan in the Capital Market Day, we see definitely more traction on this position that we were thinking just 18 months ago. And this is something that should support our profitability for the Life business also moving forward. So the bottom line of the story is a good development from the underlying performance. And then on top of it, we have had also the deck change. And in the fourth quarter, the amount of realized gains has been a little bit more elevated than normally, and that's because of the changes that we had to do to extend duration in an environment where the duration of the liability is getting longer. And also, the volatility in the market has been very low in the fourth quarter. And on top of that, we didn't have basically impairment on the equity side. That's also very different from the situation that we had last year, the fourth quarter 2018.

With that, on Page 23, you can see which of these are contributing the most to the nice improvement in operating profits in the Life segment, clearly, the United States. And that's a combination of low volatility, also the deck change, good underlying performance. So everything went in the right direction for the United States. And they -- since this is my former company, I like also to see that now they had the biggest contribution in operating profit, even more than Germany Life. And I'm sure that the colleague in Stuttgart are going to do all the best they can to be again #1 in operating profit.

In Asia Pacific, also, we have a very nice development. Just a few years ago, the profitability coming from Asia Pacific was half this profitability. And if we -- when we had Korea, there was even a question mark if we're going to have a profit or a loss. So now we are in a very different situation. And then we see also a nice development in Italy and France. And in Italy, and particularly, the development is driven by the unit linked because clearly, in a market like this, the asset basis is going up significantly.

Page 25. Investment margin, as you see, is stable. And during the year, we guided you to something closer to 80 basis points. So at the end of the year, we ended up at 86 basis point. Again, here, we have said that the fourth quarter has been very strong because of the reasons I mentioned before. But overall, we are pleased to see that there is some -- overall some more resilience compared even to some of our expectation. And as usual, the asset bases is growing, and this is kind of supporting anyway the stability of the investment margin when you look at that in absolute terms.

So now we can switch to the Asset Management segment. So we have, in total, EUR 2.3 trillion of assets under management. So that's a really staggering number. And when you look at the assets, third-party assets, we are at EUR 1.7 billion. And as we are going to see in a second, this is a higher basis compared to what we had in 2018, which is also kind of promising for the development in 2020. We give you also now some -- the pie charts where you can see the composition of our assets by different classes and also by regions. One thing I'd like to highlight is not new to you, but maybe now it's even more evident.

We are very much, if you want, geared to fixed income. 80% of our assets are in fixed income. And even when you look at the multi-assets, more than half of it is also fixed income-related. So from that point of view, I will say, we are not so exposed to the pressure coming from the -- on the fee because in the fixed income, there is less pressure compared to equity. And in an environment like this, clearly, also when rates go down, clearly, we are benefiting from this development, which might offset some of the negative impact that low rates have on other parts of our business. So this plays into the diversification element I was talking before.

Page 29. As you see, the assets under management for third-party increased by 17%, and everything went in the right direction. The flows have been positive and also consistently positive over the quarters. And as I said before, AGI had also positive flows in the fourth quarter. And then also, the market development was favorable and even the exchange rate have been favorable. So when you get a situation like this, clearly, we have a nice increase of the assets.

At Page 31, the revenue went up 6%. If you adjust for the exchange rate, the growth was 2%. Here, we had the effect coming from the first quarter of 2019 because, as you remember, the fourth quarter of '18 was very bad for the capital markets. That has driven a little bit down the revenue in the first quarter. But then clearly, we saw a different trajectory in the remaining quarters, so we should see also this play out in 2020. The fee margin, it's a little bit lower, both at PIMCO and AGI, compared to last year, but half of the reduction in fee margin is due to investment that we have done in closed-end funds, and this acquisition cost cannot be deferred. In reality, that's a positive because clearly when we look at the business case, we make a nice IRR out of this closed-end fund.

So that's a -- just a timing issue. Otherwise, I will say the mix has led to a little bit lower new business -- fee margin, but overall, we have a very, very strong picture, and we can see this at Page 33 where we can see that the operating profit has gone up. We're also adjusting now -- or show you the adjusted operating profits if we remove the performance fees, so that you can get a little bit of sense of what is the underlying trajectory versus potential volatility introduced by the performance fees. And when you look at 2019, you can see that the underlying performance was pretty much similar to the total performance that we see on the operating profit. PIMCO has been positive. Clearly, we have also a fixed effect here. But overall, PIMCO has been able to increase the operating profit adjusted for FX by 4%. And if I were to adjust also for the investment in this closed-end fund, at the beginning of the year, the growth rate would be 5%. In the case of AGI, you can see there's more reduction in the operating profit, but also here, we have this impact coming from a closed-end fund. Adjusting for that, the growth will be 2%. So overall, I will say, a good year for Asset Management and also a very good basis to go into 2020.

Corporate at Page 35, it's a significant improvement compared to what we saw in 2018 and even the prior periods. And the improvement is mostly driven by Allianz technology. Now we are coming to a different phase. So this is also something that is going to stay more or less at this level in the future. So now we are in a different situation compared to what we had just a couple of years ago.

And with that, I will move to Page 37 where you can see what happened below the line. I will not go into this slide. If you have any questions, I'm happy to get your questions in the Q&A.

Now we come to page -- to the last one, which is maybe the most interesting page for you because I'm sure that you know our numbers by heart by the time -- for 2019. So let's speak about 2020. Overall, as Oliver has mentioned before, we are targeting a midpoint of EUR 12 billion, plus/minus the customer is EUR 0.5 billion. When we look at the different segments in P&C, we were clearly to have a different performance compared to the EUR 5 billion that we posted in 2019. And clearly, part of this improvement is going to be driven by different results at AGCS. In the Life side, we are kind of normalizing the results of 2019. But with EUR 4.4 billion, we are definitely significantly above the midpoint that we said for 2019. And we should consider that we had, in 2019, Banco Popular, the joint venture profit.

And starting from 2020, we don't add this profit anymore in our operating profit. On the Asset Management, we are kind of keeping the forecast for 2020 flat over 2019. This is definitely on the conservative side if the markets are staying the way they are and if the U.S. dollar stay in the way they are, clearly, there is some upside potential there, but we'll always like to take a little bit of a cautious stance on this one, and then on corporate is more or less the level of last year, just adjusted for some volatility in the investment income. So overall, with the EUR 12 billion, we are looking to another successful year in 2020. And again, I believe we had a very strong performance in 2019. So we have all the reasons to be optimistic about this year. Thank you.

Oliver Schmidt
Head of Investor Relations
Yes. And with this, we are happy to take any questions.

Question and Answer

Operator

[Operator Instructions] And we'll take our first question. It comes from [Michael Holder] of Berenberg Bank.

Unknown Analyst

Fantastic. And well done, thanks for the lovely buyback. And I just have two questions. The first one, you said, please ask, this is the organic capital generation, the minus 1% in Q4. You said there were 2 effects, AGCS and one other.

And the other question is for your guidance of EUR 12 billion, plus/minus. What is it that you're assuming for AGCS and where you're at?

And if I may, this is the last question. I was speaking to one of your -- to [indiscernible], and he was saying there had been IT kind of after that, which means interruptions. And I just wondered if that's included in your cost assumptions.

Giulio Terzariol
CFO & Member of Management Board

So maybe I can start with the capital generation. So we had 2 effect. One is easy, it's AGCS is strengthening. The other one is related to Allianz Leben, that's more of a true-up, if you want, in the calculation. Because just at the end of the year, we have the statutory accounting, gross margin, how much we put in the RFP, how much we have for a real declaration and also how much annualized gains we have. So during the year, we don't have all this number because clearly this happens just at the end of the year. And so clearly, we need to do a better job at trying to estimate what the year-end could be. This said, when you look at the 12 months, the generation coming from Allianz Leben, including the new business, is about EUR 2 billion, even more than what we had in last year. So that's just, if you want, call it this way, sort of accounting effect in the fourth quarter just because our model ended up -- produced, if you want, too much solvency II earnings for the first 9 months, and then there is a catch-up to what should be this pretty level by 2000 -- by the end of the year. So we're going to work on refining that. That's also important.

The reality is a switch between solvency II earnings and surplus fund. So fundamentally, especially for Allianz Leben, the reserve -- the own fund are not really changing our case. Because of the transferability restriction, there is a little bit of an impact. But fundamentally, it's just, if you want, an accounting or actually a true-up at the end of the year. The main point is our capital generation for the year is at 8% adjusted for AGCS, and that's also the level that we anticipate for 2020.

The other question was on AGCS and what is our expectation for AGCS. I will say that we had 2 expectations for AGCS. One is potentially a combined ratio of 100, could be also slightly above 100. And so I will say that this is somehow how we are thinking about the performance of AGCS in 2020. So in a -- for a possible case to go 200, but that could be also slightly above 100. And this will depend on -- let's set aside clearly natural catastrophe, that's a totally different conversation. This is going to depend on the level of inflation that we are going to see. So we are still a little bit cautious on the inflation level. We clearly see massive rate changes coming, especially in the U.S., but also in Europe. There is a lot happening. But clearly, nobody can really predict how inflation will continue to develop in 2020. But clearly, we expect to have a different level of performance for 2020. And if you ask me, I will say that by 2021, I would definitely expect that we are going to be below 100. And indeed, I personally still stick to my idea that we should be able to get to 97 combined ratio by 2021, which was more or less the old plan. So I think the market is just supportive right now. I think everybody is recognizing the issue, and I believe this is going to help to get to a very different performance moving forward.

The last question, honestly speaking, I did not understand. I think...

Oliver Bäte
Chairman of the Board of Management & CEO

I can help. Otherwise, I'm getting bored anyway because of the technical details. By the first -- the first 10 sentence was it's noise in the fourth quarter, Michael, forget it. On the solvency II earnings, it's 8% over the year. That's why we want actually no more quarterly earning. I'm just kidding. Kidding aside, sorry.

On the thing you asked what the IT outages have cost us and anything, this is within the normal course of operations. Sometimes the computers don't work, including at Amazon and others, but that, on a more serious note, we had in August and October in Allianz Partners and Allianz Germany significant outages that we have been in the process of addressing and the consequences for customer satisfaction and costs have to be taken serious. The recent trends have been very good and very positive. And we need to keep on working on them. But it's not something that creates massive disruption on expenses or any other items. It's more a concern for customer and employee motivation than most other things.

Operator

And we can move to our next question. It comes from Jon Hocking of Morgan Stanley.

Jonathan Michael Hocking
Morgan Stanley, Research Division

I've got 3 questions, please. Firstly, starting with AGCS. Looking at Slide B-42, there's just a comment there that the portfolio restructuring is ongoing. I just wonder if you could give a little bit more color about that in terms of where we are in the process and what the parameters are, and whether this is just a question of getting business past renewal dates, et cetera.

And second question, AGCS. I just wonder if you could give a little bit of color in terms of how you've got confidence that you clearly seem to have in terms of where the reserves are set down, particularly some of the trends that you were talking about in London before the New Year break in terms of some of the D&O stuff and I think German liability was mentioned this morning.

And then just finally, all of -- at the beginning, in your preamble, you made an interesting comment about there's still business units within the group. There aren't any acceptable returns. I wonder if you could give a little bit more information there. Are there any particular areas we might not find obvious to see from the disclosures?

Oliver Bäte
Chairman of the Board of Management & CEO

Yes, that fits very much with your question. I'll start with that, that's AGC&S, of course. By the way, unfortunately, not just 2019, but we have now had a number of years of -- and that's the real issue. So the question is not are we comfortable with the reserves now or not? The cleanup we need to do there is more fundamental and it attaches many items. It attaches, first and foremost, portfolio appetite, what industries want to be -- do we want to be exposed to, what lines of net lines are we offering this, what type of wordings are we offering.

I think there has been a lot of negative inflation that we need to get out of the system, and therefore, would be -- it's not just about price increases, but really changing wording, changing portfolios and getting rid of overexposures. You just mentioned one example. So far, in Germany, we had liability portfolios that are overall excellent. But when you go deeper and deeper, you find that we had a huge market share in automotive suppliers and anybody with a brain should have thought through that if the industry is in trouble, while we don't cover recall for OEMs, there is recall exposure in the automotive suppliers, and that has been mismanaged. So there is a lot of work going on.

The other area that I'd like to mention is reinsurance. I think we have a number of piece of homework to do on how do we protect our earnings better, and that then feeds into the question of capital efficiency, how do we do that in a way that is capital efficient.

And last but not really real efficiency when you look into the model, let's take an example for a quarter share, you get between 26% and 28% seeding commission. If your own cost ratio is north of 30%, your incentive to reinsure it 0. So we need to make sure that productivity levels get to a level that reinsurance, with the market prices, actually makes sense. So we need to have a different level of productivity.

Now why are we confident that we are going to get there. We've put one of our best managers on top, Joachim Müller, who's transformed the German business. We have one of our most talented finance people then in there with Claire-Marie. We have put Thomas Sepp in. so we've systematically been changing the team. And now we need to move into more consequential execution.

Now last comment I'll make, it's not just AGC&S. I think as an industry, we need to really work hard on commercial lines. It's both in terms of processes, still a bit archaic. We have a joke, all the brokers drive the Ferraris and the shareholders do not get a proper return. And I think that's something we need to address. So commercial lines, overall, to answer your question on where the returns have to be, and they're often hidden in national portfolios where the retail side is hugely profitable. And we have some cross subsidy to commercial, and we're working also on that. So this is not about, okay, the U.K. makes more or less money than the other guys, but also inside of the countries we have portfolios to fix that have been cost subsidized by a largely very well-performing portfolio. So I would like to also reiterate in AGC&S, we have many portfolios that are actually making very good money, but we need to make sure that we focus on those and stop doing the nonsense.

Operator

We'll move to our next question. This comes from Andrew Ritchie of Autonomous.

Andrew James Ritchie
Autonomous Research LLP

A couple of questions. First of all, Giulio, could you just update us on what your current view is on the saga, which is the Solvency II review and the latest permutations on that? And what your current view on potential impact would be given most recent discussions?

Secondly, what's going on in terms of further redesign of Life products, given the move down in interest rates. I think in Q3 and the -- in the Inside Allianz day, you said you were looking particularly at the further new permutation of products in Germany to align with an even lower yield curve environment. Can you just update us on that and the kind of feasibility of keeping the new business margin over 3%, while still generating sales growth.

The follow-up question, Oliver, you've referred several times to commercial lines as a whole. So what is the drag from commercial lines as a whole? I mean you said it's being subsidized by retail. Forgetting AGCS for a minute, I'm talking about the rest of your commercial lines, which I think is about 30% to 40% of the rest of the book. What is differential in terms of combined ratio between that and retail?

Giulio Terzariol
CFO & Member of Management Board

Okay. Maybe I could start with the Solvency II review. So if we look now at, let's say, the idea to go with the last liquid point from 20 to 30, the impact at year-end on our Solvency II ratio will be a little bit north of 20 percentage points. So there will be a significant impact. Clearly, first, we don't think this is going to happen. As you know, there is already a different potential approach, the Dutch approach.

We also believe that, that last liquid point should stay at 20, but somehow between 20 and 30, there are other potential ideas that are more benign, clearly. Also in the case, we get a change in the last liquid point. We have always the possibility to change our duration, mitigate the impact. In general, there are things that we can do. But also, we are -- since there is a lot of uncertainty around what could happen. We also, clearly think about the potential use of transitional because, especially if we have a change, which is massive, like going from 20 to 30 clearly, we can change the portfolio to mitigate the impact, but this is going to -- you don't this in one quarter, right? It's going to take a little bit of a while to change our asset portfolio. So from that point of view, clearly, mitigation action that we are definitely discussing also the potential use of transitional.

What is very important as we think about the new business, that was your question, is to make sure that the new business production is as good as we had in the last years under the new conditions. So we are taking a lot of action. In the case of France, we are going to introduce, by the midyear, a product -- I will not use this as a marketing statement, but between us, we can say with a negative guarantee. So at the end of the day, the guarantee are going to be less than 0.

In the case of Allianz Life, we are working as all -- in Life USA, the interest rates are definitely north of 0. They are still working on a playbook with interest rate of 0, and this should give them the possibility to have a new business margin of 3% even in a very tough environment. For Allianz Leben, clearly, we have the same kind of conversation, and we are going to make product changes, but also it's going to be a lot about managing the mix. We have already products -- hybrid products that clearly have, if you want, a very low -- extremely low guarantee, it's more a sort of protection. And what we are going to do is clearly to see how we get the mix in that direction.

Are we going to be able to sell despite the product changes? I strongly believe in Germany, for sure. I have no doubt that our German organization can definitely sell a different set of products, so no doubt on that. And when I look also the rest of the European markets, I think that's absolutely doable because everybody is in the same situation.

I would -- and also in the U.S., I've been there for many years, and we have always been able to manage to get to a product portfolio, which is suitable to the environment. So you might have clearly, a drop in production in a single year. But eventually, the market and the system is adjusting. So I am pretty positive that we're going to be able to have good production also in a new environment.

And then you had a question, the commercial lines, that was a question to Oliver, but I can pick it up. At the end of the day, you really need to look company-to-company. So I -- if I just pool all the numbers together, and I remove the AGCS from the picture, you -- we might even argue that the differential between commercial lines and personal lines is not huge, but that's because then maybe there is a country where the commercial line operations can be profitable and they have the entire segment to look better. I can just tell you, where we definitely have room for improvement is in France. That's a significant block of commercial business.

And definitely, in France, we are operating at a combined ratio, which is way higher compared to what we have in retail. In Germany, we had the same situation until last year. So 2018, but we made a lot of progress in 2019. So I will say the gap between commercial lines and personal lines is relatively small, so it is not significant. So if you ask me, it's a lot about getting the portfolio for us to operate it at a different level, making sure that the portfolio in Germany is going to be performing as it performed in 2019. And also, I will say, in Spain, also, there is also some room for improvement. But in totality, I will say the gap is not huge.

Andrew James Ritchie
Autonomous Research LLP

Sorry, can I just get back to the Solvency II? There's various other aspects up for discussion now, potentially, apparently, rolling back on risk margin as well. I mean have you had your view on some of the other aspects?

Giulio Terzariol
CFO & Member of Management Board

There are other things happening in the year. Clearly, potentially the risk margin could be a positive. Also, there are conversation about the volatility adjust there. So -- but clearly, moving from 20 to 30. Last liquid point, there will be a big impact compared to what the benefit could be from the other.

Reality is we don't know what is the final proposal that EIOPA is going to come up with. I believe that's most likely the proposal is going to be a reasonable proposal, but we need always to be prepared for all kind of possibilities.

Operator

And we'll take our next question from Peter Eliot of Kepler Cheuvreux.

Oliver Schmidt
Head of Investor Relations

And maybe I can help while we're getting another. Andrew, the issue is very simple, the modeling only ends at the end of June. Then, during the German Presidency, people will look at the numbers and discuss what the numbers mean. So they're still in the data gathering phase, and then they will trade-off various items at [therein] for example, the change in interest rates, then we'll talk about last liquid points, then they will talk about volatility adjusters.

And then they will look at the fact that credit spreads are at an all-time low. Who would have thought the Greek Republic can finance short-term money at negative rates, give me a break. So people need to really look at the data, and then we know that under the Portuguese presidency, which is in the first 6 months of 2021, the things come out. So now speculating on what the outcomes may be, I think, is reading tea leaves.

Peter Eliot
Kepler Cheuvreux, Research Division

I'm guessing the mic's been handed over. Can you hear me?

Giulio Terzariol
CFO & Member of Management Board

Yes.

Peter Eliot
Kepler Cheuvreux, Research Division

Sorry, Peter Eliot. I had 3 questions, please. The first one was on the Life margin. I mean I was very pleasantly surprised to see that the basis-points guidance hasn't been sort of downgraded from last year. And I mean, I take your comments, Giulio, on the AUM supporting the sort of the absolute level of the margin. But I was just wondering if you could give us a bit more color on your thinking behind the sort of the sustainability of the basis points. And I mean, perhaps that ties in a little bit with Andrew's question, but that would be great.

The second question was on asset management. And I saw sort of the comments on the tape that, I mean, potentially the coronavirus shouldn't be negative, could even be a positive impact for you. Obviously nobody likes to benefit from things like this, but I was wondering if you could just give a little bit more color on your thinking there and how asset management has sort of started the year. I mean, I saw comments about good inflows in January. So I was wondering if you could just elaborate a little bit, that would be great.

And finally, I saw recently that you struck a deal with Microsoft to provide ABS services through the cloud to other insurers. I'm just wondering if you could sort of elaborate on your thinking there and the opportunity. I mean, I guess, at first sight, it looks like you're sharing a digital edge, but maybe people are going to get this anyway, and you want to benefit. I'm just wondering if you could talk about that space a little bit.

Giulio Terzariol
CFO & Member of Management Board

Yes. Okay. So I can start from the investment margin. As you see our guidance for 2020, 75 to 80 basis points, which is kind of stable compared to the guidance that we had also for 2019. And the point is, we definitely see more stability. We are working clearly on making sure that we can get, I call it, a spread that we like to achieve. And for example, in the United States, if you remember, at the beginning of 2019, we had some drag on our investment margin, our spread, and somehow, we have been working during the course of 2019 to restore the kind of spread that we'd like to see.

Clearly, when we also work with our European companies, we are making sure that we can secure the amount of the investment margin after profit sharing that we think is adequate. Keep in mind that we are not necessarily at a minimum profit sharing. So this give us some flexibility. So overall, we had a sort of push to see what we can do to keep the margin as stable as possible despite the challenge coming from the lower interest rate environment.

Also, thinking about that, it's clearly the low interest rates environment is -- has an impact on the -- on our investment income, but this is going to come also a little bit over time. So we are trying to react. And that's also why so important that we make the right decision there on the new business. That's critical to make sure that we see stability also beyond 2020 or 2021.

On the Asset Management, the -- my remark about the coronavirus that could be helpful for Asset Management. First of all, that's a little bit of a cynical remark, but it's just a technical consideration. Clearly, if you have a sort of change in the capital markets, you might argue that in this case, the interest rates are going to go down. Also, you might see an appreciation of the U.S. dollar. So when you combine the 2 things, there might be a positive on the Asset Management. I will not, anyway, overemphasize this as the main driver, and that's definitely not a wish. So that's just a consideration because the question was, what happens to your Asset Management in the case of coronavirus, and I will say that Asset Management will not be necessarily impacted by the coronavirus. It potentially might even be a slight positive. But don't do too much out of that.

On the Microsoft, yes. And the idea there to have ABS, which is a disposal for companies, which are not Allianz, we -- there's definitely something that we are pursuing because we think we can also create additional revenue out of it. What is important is when you look at ABS, there are different components. So there is the core component. And then you have all the customization that you can do. So we are not necessarily giving the entire ABS to potential non-Allianz insurance company. It's just part of the ABS solution. Then clearly, what is the customized part is going to stay just with us.

Operator

We'll move to our next question from Farooq Hanif of Crédit Suisse.

Farooq Hanif
Crédit Suisse AG, Research Division

Just going back to some of the comments you made on combined ratio in 2020. So you, in the notes, you've written strong progress expected in the U.K. in 2020. Is there some more guidance you can give with some examples on what to expect in the U.K., and particularly around synergies?

Secondly, the massive growth you've had in new business in Life business, so across the board and capital-efficient products and protection, what's going on there that's better than your peers? And how does that lead into 2020?

And then on the restructuring of AGCS going forward, what have you baked in for potential reserving risk? And what about top line?

Giulio Terzariol
CFO & Member of Management Board

Yes. So starting from the U.K., clearly, starting 2020, we are going to have now the full consolidation of LV and also the business of Legal & General. So our expectation for 2020 is of a combined ratio close to 95. And that's very important when you look at the combined ratio of 2019, which is just the Allianz U.K. You need to normalize that combination for a few effects.

So in reality, we are starting already from something closer to 96, as I was saying before. And then when we combine also the other 2 businesses, we should be able to get to a 95 combined ratio. At least, this is the plan for 2020.

In terms of synergies, you are not going to see necessary synergies flow in 2020. They are going to come later. So in 2020, we're going to have rather some integration cost, but the idea will be that between LV and Legal & General, we should be able to realize EUR 50 million of synergies. And in my opinion, this number is even a little bit conservative. So I think that we can do better than that. But I will say, at the moment, we are operating with a potential synergy of at least EUR 50 million.

Then, you had a question on the AGCS, right, and the reserving, what is the reserve risk. I will say the reserve risk that we have on AGCS is the development of inflation. You saw that we made a big movement at the end of 2019 and you also saw that somehow, we were not expecting that level of inflation when we had just our meetings -- or the conference call in at the end of October, beginning of November. So now we think that we made a good move to reflect the inflation, but you never know what could happen.

That's also very important that new business is going to be most likely exposed to -- differently to inflation because when we speak about new business, we are not just changing price. We're also changing deductible, we are changing limits. So from that point of view -- and we are also getting rates of some accounts or some books, so you might see some different trends in our new business compared to what we have in the [in-force]. But overall, we feel that we made a strong move in 2019 with the reserve strengthening, which is very high, with EUR 600 million. So then we're going to see what inflation is going to -- how it's going to play out.

On the Life growth, I will say the main difference is the balance sheet that we have makes a big difference. Clearly, if you have significant, the so-called hidden reserves, if you will, so how much annualized gains you might have in your statutory account. I'm referring to Germany. How big is the level of participation reserve that you have? How -- what kind of room you are to the minimum policyholder participation? So clearly, depending on the German business works as a portfolio, if your overall portfolio is stronger, you can definitely do more than what competition will do.

This said, clearly we need to make sure that we continue to make the right decision over time to make sure that we have the same kind of portfolio. But don't neglect that 3, 4 years ago, Allianz Leben has made a significant change to the product portfolio and you can see, this is serving us well right now. And now I think we're in a situation where we need to make other changes, but history has shown that we can be successful. And I believe that history, in this case, is going to repeat itself.

Farooq Hanif
Crédit Suisse AG, Research Division

Can I ask one question quickly? So on the AGCS reserving that you've done, have you added reserves to lines and books where you may not have seen a deterioration, but you've kind of guessed systemically, there may be areas of risk?

Giulio Terzariol
CFO & Member of Management Board

No. We booked reserve where we saw that the trends were getting out of line. Otherwise, we didn't book reserves for potential things that we are not seeing. Let's put it this, EUR 600 million was a good number already. So we have a taken a look at what we see, and again, I really believe the environment is very supportive. So I would expect that as we go into 2020, '21, '22, the pricing strength is going to be very, very significant.

Operator

We'll now take our next question from Vinit Malhotra of Mediobanca.

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

So 2 quick ones on AGCS, please, and one on Life. Again, very quick follow-up. First on AGCS. I mean if you go back, say, 10 years or 12 years, this used to be a EUR 3 billion portfolio, 90%, 90s combined and a lot of business -- businesses have been transferred to AGCS, of course, including Fireman's Fund, but even others through the last decade.

Would you say that AGCS has sort of being treated like a bad bank and now that's why the problems are becoming much bigger? Or would you say that, that's really not the case? AGCS has whatever issue as everybody else has as well? So that's a little just a best-of-both -- just a question to ask there.

Second question would be, again, on AGCS, specifically. Would you consider that in the U.S., for example, any [juror Todd] behaviors could potentially pose a risk for yourselves for AGCS in this coming year or next year? And if that business is not relevant, please, I would love to hear that as well.

And last thing is just that we mentioned the Life growth coming from loading and fees and business mix. But also, I would like to just understand the capital-efficient products, which obviously grow very strongly for many years, but we still have that, say, EUR 200 million normal run rate quarterly operating profit from this segment. And in the past, you've said that this could increase, but is that still a few years away, this increase? Or are we getting to that stage where we should expect more numbers on this segment?

Giulio Terzariol
CFO & Member of Management Board

Yes, maybe I'll start with the bad bank. No, AGCS is not a bad bank. Not at all. And what we're seeing right now, it's signs that you can see also in other competitors. So we are not the only one being exposed to the trends we are seeing. So from that point of view, no, AGCS is very far away from the bad bank.

I want also -- because I was thinking the other day, you mentioned 10 years ago, AGCS was a very good company. Now it looks to be very different -- and still a good company, by the way. I was thinking the other day, 10 years ago, Allianz Life didn't look to be a very good company, and we had to put a lot of capital. Now it's going to pay USD 750 million dividend as we speak. So I strongly believe that AGCS is going to return to a better level of profitability.

It's far away from being a bad bank. The only thing we know, the industrial business tends to be more challenging than other businesses and also the volatility might be higher, but I'm pretty confident that we have a good asset. We just need to have a more supportive environment and also making sure that we made the right charges. But no, no concern about the viability of the business.

On the liability side, in the U.S., our book in the U.S., honestly speaking, is not so big. So from that point of view, I will say, any development will be relatively muted. Also we see in the U.S., a massive, massive rate increases. So from that point of view, in reality, the U.S. book is a book where, fundamentally, when you look at the situation, it might be that profitability is going to be restored pretty quickly.

Then clearly, every time you speak about the United States, you need to be generally cautious because we know the environment and to be very, very litigious, but what we see right now from a rate increases point of view is extremely comforted. So we -- and also another point is not a liability, but financial lines in the United States. We -- our numbers have been indeed not that bad at all. So I wouldn't say that the U.S. must be a main source of concern for us.

On the capital-efficient product, the issue that we had there, I don't want to bore Oliver because he doesn't like long accounting conversation. The point is how our German colleagues are somehow also split in the profitability and operating profit between capital-light products. And if you want the old products, you could argue, it could be done in different way.

We had the situation of the way the deck accounting is done. So we have this sort of drag happening. You would not expect to have a drag in IFRS, but the way they do their calculation leads towards the same effect that you could see in statutory accounting where you cannot really defer the commission.

And so that's -- since they are growing that business in a substantial way, you can see this drag there. We could change the methodology and just allocate the profit based on the assets under management and then you will see definitely a better result in that -- in the operating profit line.

Operator

Now we move to our next question. It comes from William Hawkins of KBW.

William Hawkins
Keefe, Bruyette & Woods Limited, Research Division

First question, you've commented slightly on this already, Giulio. But just to clarify, in the combined ratio, your confidence on improving the Spanish results next year, you sound confident throughout 2019, but the ratio has sequentially deteriorated through the quarters, maybe you're just cleaning up the book for 2020, but if you could clarify that.

And also then on France, could you talk more generally about your ability to improve. You've already talked about commercial versus retail. But that just seems to be an embedded issue in your portfolio, and the French combined ratio has actually been deteriorating for the past 3, 4 years. And there are some peers that are getting that ratio down to the low 90s.

So I appreciate what you said about commercial versus retail, but it would be interesting to hear if you've actually got a solution to that. I mean, for example, why wouldn't you just be doing a significantly less French commercial business?

Then secondly, please, could you help me understand the EUR 4.4 billion guidance that you've given for Life, how that breaks down between the investment margin in the other business? I mean I appreciate you've given an investment margin guidance. But it strikes me that I need to take the worst case for your investment margin, 75 bps, and assume that all the other business doesn't grow to get to EUR 4.4 billion. So either you're punching that EUR 4.4 billion at a very low level or I've missed some elements of the equation.

And then lastly, sorry, just to clarify, I'm sorry, if I can get this from somewhere else, but your EUR 600 million reserve charge in AGCS, what were the total reserves in AGCS? And what were the reserves for liability and financial lines before you added EUR 600 million?

Giulio Terzariol
CFO & Member of Management Board

Okay. Maybe the -- let's start with the AGCS. The total reserve for AGCS are about EUR 10 billion, and the reserve for the liability line are about 2 point -- I said not liability line and financial lines because I don't want to give you too many details, but we are about close to EUR 5.5 billion. That's on the reserving for AGCS.

On France, what we see in France is, and we saw that in 2019 and also in 2018, we see that when we add up all the large losses, weather-related, we have, in -- let's say, in '19, we had about a load of about 13 percentage points. When we do our plan, we are more at 11. So if we believe that the 2-percentage-point gap is just volatility, then one could say we are actually in a better spot compared to the 98 that we see. But we are also, I share your point, we are kind of reluctant now to say that 11% is the right number. 13% is just bad luck also because in 2018, the situation has not been -- it's been also kind of negative.

So definitely, in France, we want to take a closer look at what we can do to improve the performance. And that's what we are doing indeed with the management team of France. And then we will see where we land. A major driver of improvement anyway for France is supposed to be the expense ratio. We want to bring the expense ratio down further. And I have to say that on this, the French colleagues have been very good also in the last year. So now we want to continue to push on the productivity element.

And clearly, we're going to take a closer look at the performance in commercial lines. But also, we're going to take a closer look at what is the amount of loading that we need to put for nat cat and weather-related and large losses and making sure that our pricing is going to maybe reflect a higher level compared to what we have assumed in the past.

On Spain, yes, we're confident that we're going to get to a better result in 2018 -- in '20 and with, I will say, our combined ratio should be below 95. I just want to tell you, Q1 might be challenging because of a few large losses. But when we look at the underlying accident year, I will say, TI in 2019, we see that there is a good strength in the accident year. So we would definitely expect to see better results in 2020 compared to what we saw in 2019. But just for the first quarter, we had just a couple of large lawsuit that you might not see the improvement full in the first quarter yet, but you're going to see this in the -- as we move throughout 2020.

On the investment margin, okay, the way I'm looking at our Life business, we had an operating profit of EUR 4.7 billion, 2019. And I will say, if you remove Banco Popular, because you need to remove that, we are at EUR 4.6 billion. And then we had the [deficit] and -- which is EUR 150 million. And then I will adjust another EUR 150 million for the investment margin. So then you start from a basis, which is about EUR 4.3 billion and this is how, somehow, I'm thinking about the starting point.

So you need somehow to remove Banco Popular. You need to remove EUR 150 million, which is a deck issue, and then you need also to adjust the investment margin towards the 80 basis points. So that will be the starting point for any kind of extrapolation to the future.

Operator

So our final question is comes from Ashik Musaddi of JPMorgan.

Ashik Musaddi
JP Morgan Chase & Co, Research Division

Just a few questions. First of all, can we get some color on the UK P&C outlook? What are we hearing because most of the companies who have reported U.K. motor, U.K. home, I mean, there is a clear message that claims inflation is still running about, say, 3%, 4% ahead or maybe more, ahead of pricing?

So how should we think about U.K. motor because if I look at your guidance, you're saying 96, you're old portfolio and 95, including the acquired business. So it feels like you're talking about 93, 94 for the acquired portfolio. Are you comfortable with that number, given what's happening here and given the pressure from FCA reserving -- sorry, the review that they are doing? So that's the first one.

Secondly, on AGCS, can we get some color as to what -- how should we think about net price increase like clearly, 9.5% or 10% price increase we are seeing. What would you say is the recurring, say, claims inflation at the moment? Or is it just hard to say that because you only learn about that over the year because it's just volatile at the moment? So that would be the second one.

Thirdly, I was a bit surprised to see that your reinvestment yield in Life and P&C is both more or less same, even though one is half duration, the Life business. So can you just explain that dynamic a bit? These 3 would be really helpful.

Giulio Terzariol
CFO & Member of Management Board

Maybe starting from -- as of kind of rate increases we are seeing. I can just say, in the last quarter, in the Q4, when you look at rate increases, not just renewal, also new business on a return basis, you see across the portfolio, something very close to 20%. So the rate increases that we see right now are massive. And so it's all about what kind of inflation assumption you make. If you make the assumption that the inflation is 0, then you're going to have very healthy and nice combined ratio, but that's clearly not a realistic assumption.

When we look at assumption for inflation, it depends on the different countries. And I will say in the U.S., we are still thinking that inflation could be at the level of about 7%. So we are still thinking that inflation could be pretty elevated. In the case of euro, we think inflation is going to be more towards the 2%. So then you can combine this and for our portfolio, I will say there will be something closer to 4% to 5%

inflation. But again, it's always hard to predict how this speed in inflation might change for the better or for the worse.

On the U.K., I will say that we saw what you are referring to, and we had also a conversation with the local management team, and what they are telling us is that they are getting rate increases that should be enough to offset the inflation -- their claims inflation. So from that point of view, there is confidence that, at this point in time, we are getting the needed rate increases that were actually pretty, pretty healthy. So this is where the kind of confidence is coming, that -- yes, we should be able to offset the inflation.

In the case of Life and P&C, I think the main difference is that the contribution of emerging markets in P&C is stronger compared to what we have in the Life business. The Life business is mostly, and we are speaking on investment, is mostly dominating by Europe.

In the case of P&C, we have growth coming also from emerging markets of Turkey, and this makes a difference. The reason why reality, you need to adjust the yield for the different geographical mix.

Oliver Bäte
Chairman of the Board of Management & CEO

I just would like to remind us something when you think about the outlook. I would like to go back to '20 and '21. So the first one is we believe we are on track to 2021, also because we really do have strong diversification in the portfolio. Now as a critic, you could say, we have been benefiting from very strong investment markets. I would just like to point out to the fact that probably, and we don't know the numbers for Fidelity, Allianz is, by now, the world's largest active asset managers, dominated by fixed income, which is almost 70% of what we do, where we have had the strongest record on history in terms of investment performance, and that is unlikely to abate, right?

So Giulio has nicely said, we obviously don't know whether that will continue. So we are more market exposed, but that gives us a very strong bench. So when people thought about us 10 years ago as a P&C insure attached with some distribution financing life businesses and then some startup called an Asset Management, I think that picture has dramatically changed.

Now why do I say that? Because at the time when the commercial lines industry in P&C is struggling, it has to be rebooted, and we are on track. We have an enormously strong and vibrant business that we've built. Second observation, our Life business now, this is the third time we are transforming it. First time was 2011 -- '10, '11 after the financial crisis and interest rates coming down after the euro crisis, '12 and '13, and we've been doing that working on the back book is like. We didn't talk about that today.

We are still working on the in-force book massively, not just on the new business. We are going to address the new business. By the way, it gets even more difficult with consumers because with negative rates, as Giulio has said, and I wouldn't call that a negative guarantee. I would basically say the question, how do you think about protecting capital after you subtract cost? So one of the things we'd really have to look at is what the distribution cost for the product, not just how do you address distribution cost alone, but -- and guarantee cost alone, distribution and cost will really matter.

And that allows us to really work hard on the P&C portfolios that we have. And you can get from -- if you are nervous to look at the picture, is there something beyond AGC&S? Again, I'd like to reiterate, we're working on commercial lines. There is lots more work to do, but the Spanish issues and the number that you have seen are really one-offs. So you can call them [indiscernible].

Now first quarter this year, there's a lot of nat cat activity that's already happened. Australia, you've seen. You have seen U.K. coming. You have seen [Zabina]. I don't know why storms always have a female name. I think it's men putting the names on them.

Oliver Schmidt
Head of Investor Relations

Dangerous, actually.

Oliver Bäte

Chairman of the Board of Management & CEO

Yes. [We had men name] Claus. Yes. No, we had Claus. That's right.

But recently, yes. [Niman] That's right. So somebody has picked this name, but anyway, I was wondering, by the way, do we have any female analysts on the phone? Anyway, different discussion.

But kidding aside, the key thing is what one really needs to believe in that you are on board of one of the strongest ships that exist in our industry, that we are not pumping on one cylinder, but on many and that we have both the will and the ability to deliver on what we set ourselves, and I think you've seen the track record over the last 5 years and beyond, actually, dividend is 7 years up. So you make your pick. We are confident that we can do what we've been promising. Thank you very much for listening.

Oliver Schmidt
Head of Investor Relations

All right. Thank you very much. We wish everybody a very nice remaining afternoon and a relaxed weekend. Goodbye.

Operator
This concludes today's call. Thank you all for your participation. You may disconnect.