S&P Global
Market Intelligence

Allianz SE DB:ALV

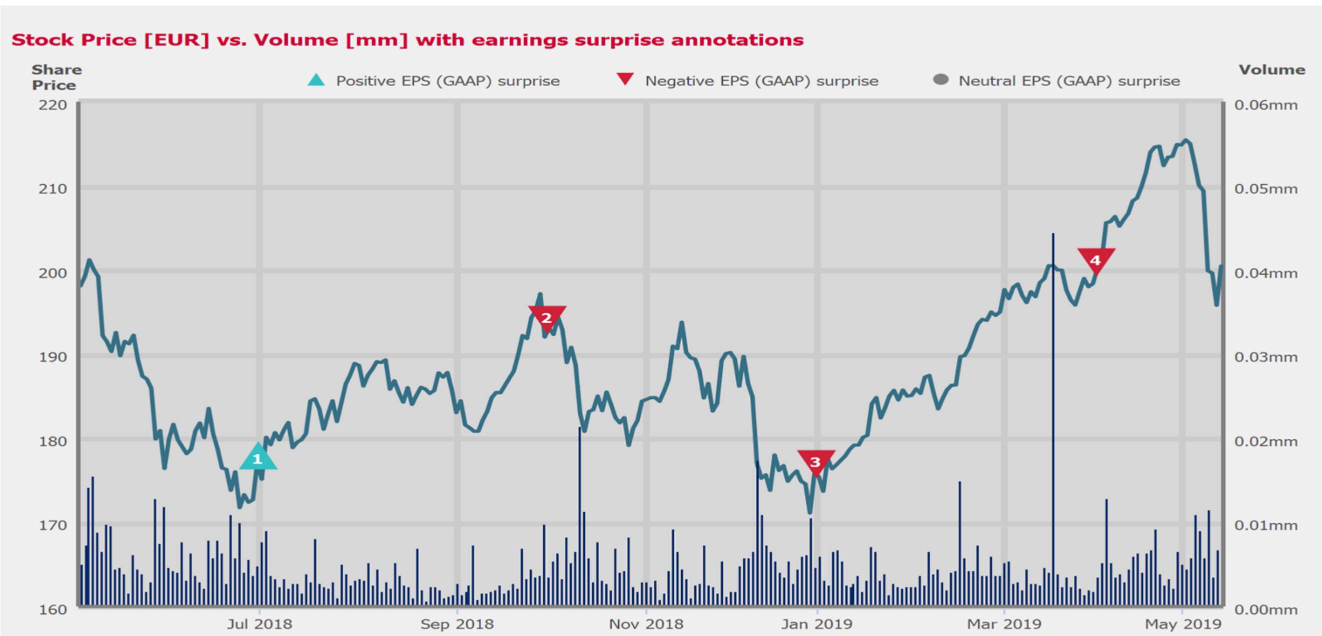
FQ1 2019 Earnings Call Transcripts

Tuesday, May 14, 2019 12:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2019-			-FQ2 2019-	-FY 2019-	-FY 2020-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS (GAAP)	4.68	4.65	▼(0.64 %)	3.96	18.71	19.98
Revenue (mm)	36170.54	40273.00	▲11.34	33036.62	133391.44	137307.71

Currency: EUR
Consensus as of May-14-2019 10:47 AM GMT



- EPS (GAAP) -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2018	4.15	4.38	▲1 5.54 %
FQ3 2018	4.58	4.54	▼2 (0.87 %)
FQ4 2018	4.22	3.93	▼3 (6.87 %)
FQ1 2019	4.68	4.65	▼4 (0.64 %)

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EXECUTIVES

Giulio Terzariol
CFO & Member of the Board of Management

Oliver Schmidt
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ANALYSTS

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Presentation

Operator

Ladies and gentlemen, welcome to the Allianz conference call on the financial results of the first quarter 2019. For your information, this conference call is being streamed live at allianz.com and YouTube. A recording will be made available shortly after the call. At this time, I will 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, Brian. Yes, good afternoon from my side as well, and welcome to our conference call. I keep it brief and hand over directly to Giulio.

Giulio Terzariol
CFO & Member of the Board of Management

Hi. Good afternoon and good morning to everybody, and thank you for joining the call. I'm pleased to present you the good results for the first quarter. And we can go straight to Page 3 of the presentation.

As you can see, we had a good internal growth with 7.5%. And this was driven by the Life segment and also by Property-Casualty. In Asset Management, we had a reduction in the revenue. I'm going to come back later on this development. But in total is the growth rates of the revenue for the group, very positive. The operating profit is also up. This is mostly driven by the underwriting improvement in P&C as a consequence of lower natural catastrophe. And then when you look at the net income, it's also up compared to the level of the prior period. As you know, our outlook for 2019 is an operating profit of EUR 11.5 billion. So with an operating profit of EUR 3 billion in the first quarter, we are well on track to achieve the EUR 11.5 billion by the end of the year.

Now if you go to Page 5, we have here the development of the IFRS equity and also the Solvency II. On the IFRS equity, clearly we see a nice increase of EUR 6 billion, which is mostly driven by the change in annualized gains and losses on investment because of the market development in Q1. More interesting, I think, is the development of the Solvency II ratio, which went down by 11 percentage points. If you remember, we didn't have the deduction for the buybacks in the numbers of 2018 and also we had anticipated 3 to 5 percentage point of model changes. So just adjusting for these 2 effects, the solvency ratio at the end of 2018 would have been closer to 220%. So in reality at the moment, between 2019, the first quarter and 2018 is mostly explained by these 2 developments.

I'm going to come back in 1 second anyway on these numbers. Otherwise, on these slides, I'd like to draw your attention to the sensitivity, especially to the equity market sensitivity and the interest rate sensitivity. For the equity market sensitivity, we don't see any significant change compared to what we had before. In the case of the interest rate sensitivity, you can see that the interest rate sensitivity down is more pronounced now compared to what we disclosed at the end of 2018. And the major driver for that is the complexity on the solvency requirement.

But if we go now to Page 7, I can come back again on the development of the Solvency II ratio. As I said before, because of the model changes, we lost about 4 percentage points of solvency. Then you can see the operating Solvency II generation, which is 6% pretax and pre-dividend. If you deduct the dividend and the taxes, you come up to a number of 2%, which is somehow lower compared to the 3% we usually would expect. But the main driver for this is the higher growth that we are experiencing. So in reality, it's very much in line with our expectation based on the growth that we are seeing right now, especially in Property-Casualty.

The market impact was minus 3%. If you adjust for taxes, that will be minus 4%. And this is definitely a little bit higher compared to the sensitivity that we had estimated at the end of 2018. So that will be the only thing where there was a little bit of a deviation from our expectation. And then on the capital management, the minus 7% is mostly explained by the dividend and by the buyback. So in total, we have a solvency ratio of 218%, which is a very comfortable level. So from a capital flexibility point of view, we have clearly the same capital flexibility that we had before. And again, the majority of the delta compared to the end of the year was largely anticipated due to the buybacks and the model changes.

And now we can come to Page 9, where we show the numbers for Property-Casualty. And we see on a total Property-Casualty level that we have an internal growth of 4.6%. Of this 4.6% internal growth, 40% is driven by price and 60% is driven by volume. Second point is we can see practically growth across the board, I will say, except for a few entities all companies are growing. And also when we look at the price environment moving forward, in general, we are dealing with a price environment which is either stable or positive. So from that point of view, the price environment should support our performance as we go through the rest of 2019.

At Page 11, we show the development of the operating profit. And there, as you can see, the operating profit increased by 14%. And this is driven by the development of the underwriting results, and to be more specific, by the improvement in the combined ratio, which is mostly driven by the nat cats load, which is lower compared to what we had last year. Also we had an improvement of the expense ratio. As you see, the runoff is stable. What went against us in Q1 was the development of the large losses. When we analyzed the number and we removed the impact of natural catastrophe or large losses and weather-related losses, the real attrition loss ratio is pretty much stable compared to the level that we had 1 year ago. So all in all anyway, a combined ratio which is positive compared to what we had last year, not just because of the natural catastrophe, but we continue to work also on our expense ratio.

Moving to Page 13. We can see the breakdown, the operating performance by entities. We had very good performance in Germany. The improvement is driven not only by lower natural catastrophe but also a better development of the expense ratio and also lower large losses. In France, we see also numbers moving in the right direction. In the case of Italy, where you see an improvement compared to the prior period, this improvement is all explained by the removal of Genialloyd, which is now part of Allianz Direct. Adjusting for that, the combined ratio in Italy will be flat and at a very good level. Then in the case of Spain, you can see a swing. And that's due to a positive runoff in 2018, which is now turning negative in the first quarter.

And then when you go down the list, in Turkey, you can see a higher combined ratio. But this is all driven by the inflation environment, which is offset in the investment income. And then AGCS looks worse compared to last year. But we need to keep in mind that last year at year end, the combined ratio of AGCS was over 100%. So from that point of view, this is the level of performance that we are currently experiencing at AGCS. And then very good results both at Allianz Partners and especially Euler Hermes. So all in all, I would say there are as usual some positives, some room for improvement. But in general, the portfolio is doing pretty fine.

At Page 15, just a short comment on the investment income. It's resilient. The reality, it's even going up a little bit in the first quarter '19 versus the level of last year. So the resilience is something that we are welcoming because we are always anticipating some reduction of the investment results. But for the time being, we see there is more resilience in this position than usually we tend to anticipate.

And with that, I will come to Page 17 to speak about our Life segment. First of all, on the production, you can see there is a nice increase in present value of new business premium, which is about 17%, 18%. This is mostly driven by Germany. And also we had a very good growth rate in the U.S.A. Also in Benelux, we had a nice development. And just in Italy and Asia Pacific, we had some reduction of production. But in general, we are very, very pleased with the growth that we have experienced in the Life business. And what is also important is the margin is going up. So we had also increasing margin by 20 basis points. And as you can see, the margin is going up also -- or at least stable in all segments within the Life business.

If we go now to Page 19, you see the development of the operating profit, which is up to 2.5%. As you might remember, our outlook for 2019 is EUR 4.2 billion. So with an operating profit of EUR 1.1 billion, we are good on track to get to the EUR 4.2 billion by the end of the year. What you can see in the waterfall is a reduction of the investment margin, which to a certain degree is also expected. And this is more than offset by loadings and fees. And also we have a positive impact of change in DAC. Here, there are clearly many drivers. But one driver is that in the benign environment of Q1, the VA business in the U.S. is performing pretty nicely. And this is leading to positive DAC true-up because of the capital market performance. So all in all, EUR 1.1 billion, so a good operating profit for the quarter.

If you move to Page 21 on the value of new business, you can see an increase in value of new business of 25%, which is clearly the consequence of the higher production and also the improved new business margin. When you look at the single entities, you can see widespread improvement on the value of new business. And when we look at the operating profit, I will be focusing on in the 3 largest, if you want, the 3 top companies on the table. In the case of Germany Life, you see there's more reduction. This is more a normalization because the operating profit level in the first quarter of last year was higher than what we would normally expect. In the case of the U.S.A., it's the opposite. You see an increase because the operating profit was too low in the first quarter 2018. And then in the case of Asia Pacific, you can see an improvement, which is once driven by the growth that we had in Asia but then also driven by the fact that we don't have the drag of the legacy book in Taiwan anymore.

And with that, at Page 23, we have our regular, if you want, deep dive on the investment margin. When you look at the investment margin, first of all, you can see that the current yield is going down just slightly and more or less in line with the minimum guarantee. So from a spread point of view, there is a lot of stability. What has gone up in the first quarter '19 versus what we had last year is the profit sharing. And so to this point, this is always a metric that, to a certain degree, we can't control because we are not necessarily crediting at the minimum policy -- or we're not at a maximum policyholder participation, especially in the German business. Also there is flexibility in the U.S. business.

When we look at the 19 basis points of investment margin, this is slightly below if you annualize the number our guidance of 80 to 85 basis points for the year. Here, we need to do -- to see 2 things. First of all, how this is going to develop in the following quarters. But I would also like to draw your attention that the aggregate policy reserves is increasing substantially. So from a volume point of view, there is an offset that we have a higher asset bases, if you want, which shouldn't be neglected because at the end of the day, what counts is the multiplication between the asset base and the investment margin.

And with that, we can move to Asset Management at Page 25. As you can see, the assets under management for third party have increased by about 8%. And clearly, here, both the improvement due to the market, including the FX effects and the consolidation of Gurtin, have played a role in bringing the number up. But also you can see we had positive inflows of about EUR 18 billion, slightly negative at AGI but largely positive, over EUR 20 billion, at PIMCO, so that's a nice development. You remember that the last quarter 2018 was kind of challenging for PIMCO. But we were always confident about the flows moving forward. So we see -- so we saw nice flows at PIMCO in the first quarter 2019.

When we move to Page 27, we see that the revenue, stable. But if you adjust for the FX effects, they are down about 5%. This is driven by PIMCO. And here, we have also a one-off. I'm sure you're going to ask me a few questions about this one-off in the Q&A, so I'll leave to the questions I'm going to get. And also we should not forget that the asset bases in 2019 in the first quarter was slightly below the level of last year because of what happened during the fourth quarter. And then there are some other technical factors that explain the drop in revenue on -- adjusting for FX effects at PIMCO. The investment margin -- the fee margin is also a little bit lower here. That is also the impact of the technical effects and one-off I was referring to. In reality, if you adjust the fee margin for these effects, it's pretty stable compared to the level of last year.

And with that, we can go to Page 29. So the operating profit for the Asset Management segment is about 10% below the prior level if you adjust for FX effects. This development is all driven by PIMCO. And here, there are 3 effects at the end of the day. One is the one-off, which is, by the way, a good thing because it's going to produce revenue and profit moving forward. Then we have also the fact that the revenue bases was lower because of the lower asset bases. And then the cost/income ratio in first quarter 2018 was -- with 56.6%, if you want, a little bit too low compared to what would be a normal expectation for PIMCO. So in total anyway for the segment, we have about EUR 600 million of operating profit.

Our guidance for the year is EUR 2.5 billion of operating profit. And we feel pretty confident that we are going to achieve the EUR 2.5 billion, considering that the asset bases as we're going into Q2 is higher

compared to the level that we had in Q1, considering that the famous one-off I'm referring to is going also to create revenues starting Q2 and also considering that performance fees, which are a driver of performance for our Asset Management operations, are coming usually later in the course of the year.
So we are pretty confident we're going to achieve our EUR 2.5 billion of operating profit for the segment.
Page 31 is just the development of the corporate segment, which is getting slightly better compared to the prior period.

And I will say we can go straight to Page 33, where we are showing as usual the development of the nonoperating items. I will say there is just 2 comments. One is realized gains and losses are lower compared to the prior period and impairment are stable. So there is no specific reason for the lower realized gains and losses compared to the prior period. And then on the tax rates, you can see it is at 25%, which is somehow the low end of our range of 25% to 27%. All in all, with a net income of almost EUR 2 billion for the quarter, I think we have a very strong bottom line results, which is mostly driven by the performance or the operating performance that we discussed before.

So the last slide is just a summary for you. So good revenue growth, good operating profit growth. So we can see a lot of strengths in many KPIs in a lot of parts of our business. So we are looking forward to a good 2019.
And with that, I would like to open up to your questions.

Question and Answer

Operator

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

Peter Eliot
Kepler Cheuvreux, Research Division

I had three questions, please. The first one, Giulio, was on the solvency development. I mean, you mentioned the 2 reasons that, I guess, the ratio missed a lot of our estimates, which was the complexity of the sensitivities and also the operating results. I mean, on complexities, the interest rate sensitivity is now back up to your target of 11 percentage points. I'm just wondering, to what extent the percentage of the increase for even lower rates? And on the operating, I'm just wondering if we could have a little bit more color. Because you mentioned the growth in Non-Life being attributable. But actually, the growth is less than it was across 2018.

The guidance seems to come down a little bit but not massively, considering you're basically guiding to 8 percentage points for the rest of the year. So I'm just wondering, to what extent as what we're seeing in Q1 is sort of one-off effect? And to what extent is it ongoing? Obviously, the question was much shorter. Second question was I'm intrigued by the impact of Allianz Technology. I was just wondering if you could elaborate on that, a bit of help by the corporate segment. And the third question, Asset Management flows, just wondering if you could give us an update on Q2 to-date.

Giulio Terzariol
CFO & Member of the Board of Management

Okay. Thank you, Peter, for your questions. Maybe we can start from the Asset Management flows and then we go all the way up to the first question. The Asset Management flows, we are seeing good flows also in the second quarter. So on a net basis, we should be at about EUR 10 billion net flows, which are mostly driven by PIMCO. So we see nice flows in relation to PIMCO. In the case of AGI, we are still not in the positive area. But in total for the group, we are speaking of positive net flows of about EUR 10 billion for the first 6 weeks of -- or the second quarter.

For the Allianz Technology, you had a question about the Allianz Technology. Yes, the numbers are getting better. So this is the driver for the improvement in the corporate segment. Allianz Technology is the company that has been carried out a lot of our projects and transformation projects. And clearly, when you do these transformation projects, you cannot always capitalize all kind of expenses. So now -- there was a drag in the past. And now we see that this drag is coming down because now Allianz Technology is more getting the revenue out of the transformation projects instead of being heavily in the investment phase. So just is a natural development, if you want, to the business model of Allianz Technology.

Then you had a question on the Solvency II or two questions on the Solvency II. One was on the capital generation -- organic capital generation. And on that one, I will say, first of all, there is also one, one-off that is included in the capital generation is the development of the risk margin, which is in the P&C side, which is going up. And that's driven by the change in interest rates. We are not showing this impact neither the sensitivity. And we are not showing markets. In fact, we are showing this in the organic capital generation. So this is definitely something which is costing a little bit of capital generation for the quarter on the operating side. But then I will also say that we have refined our also calculation for the business evolution. So right now, what we do consistently, we apply a 30% charge to our premium. So the growth in premium, also in the future, we're going to be able to track very easily the consumption on the P&C side. This is consistent with how we addressed the issue in the Capital Market Day. So there is, from that point of view, also some refinement that we are doing to the methodology.

If the growth rate is going to go down from the almost 5% level that we see now to the 3% level, you are going to see capital generation back to the 3% level. This said, honestly speaking that we have a 3% capital generation per quarter or 2% capital generation per quarter, it doesn't make it a difference. And if I have to choose, as long as the growth that we do is profitable, either growth for the profit and having 8% or 10% of capital generation or 11% on the Solvency II per annum, doesn't make honestly speaking a big difference. So we are happy to get the growth. And if we have a little bit less capital generation, that's totally fine.

And then you had a question about the complexity. Yes, I will say if rates go down further, you will see the complexity picking up. The complexity is constantly picking up as you go down -- as the rates are going down. The only point to note is the bonds was at minus 9 basis points at the end of Q1. And so there is most likely a limit to how much the interest rates can go down. So I would not exclude that it can go down a little bit further. But I believe we are approaching the limit to how much down they can go. But technically speaking, yes, the complexity is picking up as we go down. The interest rates are going down. And you can see that also in our sensitivity. Our sensitivity on the way down was minus 4 at the end of the year and now we have aged down is minus 8.

Peter Eliot
Kepler Cheuvreux, Research Division

That's great. And you agree on the capital generation. Could I just quickly clarify? On the Allianz Technology, it sounds like that result is fully sustainable and might actually even improve from here going forward. Is that the right interpretation of what you said?

Giulio Terzariol
CFO & Member of the Board of Management

Yes, that's the right interpretation. In reality, yes, we want to improve the performance of Allianz Technology over the next 2, 3 years. So absolutely, the direction should be a positive direction from here.

Operator

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

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

On the -- this has been [brought up to you] probably on the solvency, I just wanted to clarify because I missed a bit. The guidance at the moment for the year is 8%. And if we were to have a lower growth, we would to go to 11%? That's the question. And the other one is I'm a little bit surprised at this slightly lower guidance given the Life business is producing so much new business at you which I think is included. I think it's EUR 100 million higher this year than last. So I'm wondering if I'm missing a moving part, a negative moving part to explain this lower guidance. And then just a little bit of color on the German motor, my favorite topic. Can you say -- speak a bit about maybe the pricing and competition environment? The reason I ask is I think for you the pricing was positive, but all your peers -- well, some of your peers, AXA and Talanx, reported negative and I'm a bit surprised. If you could...

Giulio Terzariol
CFO & Member of the Board of Management

Yes. So on the Solvency II capital generation, I would say that assuming at the current kind of growth rates and also adjusting for the risk margin, I would expect that by the end of the year, we might be at the 10% level. So that will be my guidance for 2019. And then depending on the acceleration or the deceleration of the growth rate, we might end up a little bit better or worse than that. So fundamentally, the guidance is still for 10%. But eventually, it wouldn't be a trauma if we end up with a capital generation of 8% just because we are growing very strongly. But the guidance is about 10% for 2019.

Then you had a question about the German motor. So I can just tell you that definitely, we saw some more competition in the German motor business. Our combined ratio, we still get anyway rates improvement. And we, I think, are pushing, if you want, less on growth because clearly we are always adjusting our appetite depending what the market conditions are. So if you look indeed at our growth in motor this year is less compared to the growth in motor we had last year because we are not focused on growth for the sake of growth. At the end of the day, we want to have profitable growth. And the combined ratio can tell you is pretty, pretty solid.

Operator

We will now take our next question from Vinit Malhotra from Mediobanca.

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

Just coming back on the growth topic, if I can ask one Life, one on P&C and then also a third question on AGI outflow. So on the growth in German Life, I mean, the kind of numbers you produced in the savings and annuities have not been capital-efficient. Despite the market growth, it seems to be coming from corporate business but not affecting the new business margin as well. So is this some kind of a new initiative? Or is this -- and also could you comment on the relationship with that, while it is large corporate, it's not affecting NBM?

And in P&C, there is, in Italy, a remarkable 8.4% growth number, which we found quite exciting. Could you just help us understand? Because it's obviously not coming from the direct side and the traditional motor, it looks like, so if you could comment on that. And then on AGI outflows, you said that there was a small outflow, but it's also one of the biggest outflows in many, many quarters now. How -- is it performance-induced? Is it -- I mean because equities is very strong in that, where AGI is also strong. So just help us understand how the [indiscernible]

Giulio Terzariol
CFO & Member of the Board of Management

Yes. So I can start from the Life growth in Germany. It's not a new strategy. And we have situation where in a quarter, we might have more large contracts. So this had happened also in the past. I believe what is kind of eye-catching now is that you have the combination of natural growth also in our capital-light product. And on top of that, we are getting also this large contract. But it is no new strategy. I also believe that in the course of the year, you're going to see some sort of normalization. With respect to the performance of this business, the new business margin is still healthy. At the end of the day, we are still making our target pricing, which is in this business, so we're not sacrificing performance. And one thing that you need to consider is every time we are growing also the way we are, there is also a cost advantage, right? So we get also better cost margin. So at the end of the day, always think that the profitability of our Life business is not only driven by investment margin, but there is also a technical component -- the cost component, that's the reason why it's absolutely profitable growth, where we get it at Germany -- in Germany. And also think about that. We even adjusting for these growth costs, our growth rate will be north of 20%. So what will be the reason to chase big contracts if you are anyway growing a lot? So we'll not have any concern on the profitability of the new business for Germany Life.

In the case of P&C in Italy, you noticed the 8% growth, which is driven by an accounting change on the way we book the premium. Because in Italy, premium paid on a monthly installment basis were not accounted right away, but they were accounted over the time. So this is, I think, clearly a growth rate for the quarter, which is exceptionally high. In the internal growth of 4.7%, we have adjusted for that effect. So when you want to look at the real growth in Italy, look at the internal growth, which is adjusted for this accounting effect. And that's also adjusted for the exclusion of Genialloyd. So that's the real number you should look at. It's still very good because the growth rate of 4.7% is good. And in the case of Italy, it's driven by motor. And that's also driven by volume or by price. But clearly, when you have a combined ratio the level that we have, I think price is more than fine. And I need to come back also to the question of Michael before, in Germany, it's the opposite. When you see what is driving the growth in Germany, it's price and not volume. So just to give an idea how we are moving differently country-by-country. Depending on the competitive environment, the level of performance, then clearly our subsidiaries are going to react subject to the market conditions.

Then you are requesting AGI, noticing that the inflows were kind of weak for the quarter. The driver for the quarterly development of the inflows is half of the outflows are driven by Asia, where a big distribution partner didn't like the concentration they had because they were selling a lot of AGI products. And this has been clearly a headwind for us. So half of the outflows are driven by distribution partner trying to reduce the dependency on AGI. And the rest is coming from a slowdown in sales in retail in Europe. So these are the two effects that are explaining the outflows. I will say the Asian one is a little bit, if you want, of a one-off. And the retail headwinds in Europe, then we need to see how this is going to play out in the next months.

Operator

We will now take our next question from Andrew Ritchie from Autonomous.

Andrew James Ritchie
Autonomous Research LLP

Two quick questions. Spain used to be the golden child, running in the low-90s or high 80s combined. What's happened in Q1? I'm particularly interested in the reference to reserve strengthening in the commentary. Just maybe just give us a bit more color on that, please?

Second question. Given the interest rate environment has kind of deteriorated a fair amount year-to-date in terms of benchmark yield curves falling, we've always been accustomed in the past to Allianz being fairly proactive in terms of management actions that you take, particularly in respect to ALM positioning, Solvency II model. Is there anything -- because of the sort of tougher, back to this lower-for-longer forever interest rate environment, is there anything that you've done proactively as a group, particularly in Q1, to reposition for that?

Giulio Terzariol
CFO & Member of the Board of Management

Yes. So maybe let's start from the Solvency II question. So what we are always doing -- we do some -- always some capital management. There was nothing now very pronounced in Q1 that we did on this side. Also considering that when you have a solvency ratio which is at 220% level, there is no point for us now to overreact to movement. But clearly, so if you look at our position, assuming we will get uncomfortable with the level of Solvency II, which we are not, there are that we can do. We can definitely change our duration profile. So from that point of view, always keep in mind, every time we speak about our sensitivities, we are not considering for capital management action, for management action. But clearly, this is a tool that we have at our disposal.

And this can be also very effective to manage the Solvency II ratio. Also change in the derivative strategy for equity hedge, and this can be very effective. And clearly, you need to consider what is the impact on other KPIs. But we start just from the point of view that we have a very healthy level of solvency. We expect that we're going to generate solvency capital moving forward because of the organic development. And so from this point of view, clearly we're going to evaluate what we can do on the duration side. But we are not really agonizing here, thinking that we have a Solvency II problem at all. So I will say we are very comfortable with the level of Solvency II. If the markets have changed significantly and we have a different levels of Solvency II, then we must think about different action. But at this point in time, we feel good about where we are. And that's also very important. All the flexibility for doing what we need to do from a capital management point of view in the sense of growing our business, doing buybacks, looking at M&A opportunity, has not changed a bit because of the number that we have. We were anyway expecting to have a solvency ratio closer to the 220% as we were adjusting for the buybacks and also for the model changes.

Then you have a question on Spain. And I would say what happened in Spain is usually -- I will say the accident year performance is more or less at the same level of last year in the sense of the loss ratio is deteriorating a little bit. And this is driven by a little bit by the property portfolio, a little bit by the motor portfolio. But on the other side, the expense ratio is going down because we are taking measure on the efficiency side, although Spain was always a very efficient company. So from the accident year performance is pretty much stable and then we see a swing in runoff, which is mostly coming from the motor business we are looking. And also from there were claims at the end of -- weather-related claims in property at the end of last year, and now we see that somehow we are getting some negative development out of those claims. So this is something that we're going to -- we are watching now. I believe that for this year, we still might have a few challenges in Spain. But by 2020, I'm rather confident we are going to be back to a good level of performance because of the actions we are undertaking.

Operator

We'll now take our next question from James Shuck from Citi.

James Austin Shuck
Citigroup Inc, Research Division

Three questions from me. Firstly, AGCS its had another difficult start to the quarter. Combined ratio close to 100%. I appreciate that's impacted by large losses, but there's also no real impact from nat cats. In 2017 and 2018, also around 100% level. You bring volume at about 11%, so can you shed some insight please into the future direction of travel around that combined ratio? I think it's a very low ROE business as it is. If you just update on what you're doing in terms of capital efficiency on that side please, that would be helpful.

Secondly, just interested to see the new disclosure for Allianz Direct. So there's 103% combined ratio with an expense ratio of 18% or 17.8%. It sort of seems to imply your ratio is a very high loss ratio in the direct business. And most of that direct business should actually be quite mature now, particularly given Genialloyd that's been there for many years. So just shed some insight onto that loss ratio for me, please.

And finally, really just a clarification because I think, Giulio, you mentioned that the capital set aside for P&C growth was 30% of premium. I was just looking back to the Investor Day in November, you were pretty clear then that the capital set aside was 35% to 40% of premium. So I just want to make sure if you changed your modeling in terms of capital required for the growth.

Giulio Terzariol
CFO & Member of the Board of Management

Thank you for your question. Maybe we can start from the last one. Yes, we had 35%, and this was the pretax number. And now we have put in the -- on the ACI, we have put in the -- directly the tax impact into the business evolution. Then when we give you the number 2 is anyway net of taxes from both side. So the 35% was pretax, the 30% at the end of the day, it's an after-tax number.

One thing which is important for you because we are going to have this again in the future, so I want to set expectation. The way we are running our business evolution calculation is we look at the portfolio movement and then we establish a sort of -- based on analysis, a rule of thumb of premium are going to have this kind of premium charge, new business going to have this sort of new business charge and the runoff for the in-force is going to have this kind of runoff charge. And then on -- we use this charge on a custom basis, and then time by time, we reevaluate the charges. We redo the analysis, and then we might change depending what we see the numbers. So you might have a situation where we are going to have, at some point in time, maybe slightly different factors, and this could drive a little bit of a different development compared to what we discussed before. But we are going to be also transparent if we have significant changes in the factors you're going to see that.

But this is a very good way in reality to run these numbers is very transparent and very easy to have a communication with you guys. But I just want to explain to you how we are doing this calculation now. This was not the way we were doing the calculation midpoint or last year, so this is a change that we introduced to have better stability and better clarity on these figures.

Then you had a question about Allianz Direct. You noticed that the combined ratio is 103%, and you also made a good comment about the business of Genialloyd should be mature. Indeed, Genialloyd has a good combined ratio, but that's the only one. And the other 3 companies are pretty -- still pretty small and their combined ratios are very, very high. But that's exactly the reason why we decided to get into a different direction, right? Because at the end of the day, it doesn't make sense to run the small operation with very high combined ratio, not just because of the scale but also because of the kind of underwriting performance.

There is one thing anyway that has to be appreciated, especially when you have companies which have mostly new business. The combined ratio is going to be higher. The new business comes always at a higher combined ratio. So I will say in the case of Genialloyd, yes, the company is between [inverted] and mature, but still I will say it's still not as mature as the seasoned business of Allianz Italy in general. And then if you remove Genialloyd, which has anyway good combined ratio, the other entities are really not at a mature stage. That's the reason why you see the combined ratio that you see. But that's also the reason why we are doing what we are doing.

Then you had a question on AGCS. Your comment about the large losses are high but the natural catastrophe are low is a fair comment. So at the end of the day, I just tell you the reality is that over the last 3 years, AGCS has performed at combined ratio of 100% or more. And 1 quarter might be that the large losses are high, the other quarter is going to be the natural catastrophe. At the end of the day, the bottom line is always the same. And so from that point of view, clearly, we are taking actions on the portfolio. You might have also seen the direct environment is getting better. I think this was overdue. And I would also tell you that what we are seeing right now is a positive development but might not be enough because there is also currency inflation. So at the end of the day, this should just be the beginning of a journey of a stronger hardening as opposed to just a short-term correction. So there is definitely improvement in the pricing, which is needed, and this applies to the whole markets, not just to us because our performance in reality is totally fine compared to the market. So the whole market needs repricing. And then clearly, there are things that we can do also to improve our underwriting and also look at different books.

You have commented about the growth. There is no correlation between the loss ratio that we see, the combined ratio we see and the growth in the sense of we are having these kind of numbers because we are growing in the wrong line of business. So from that point of view, I believe the performance you see right now is just a reflection of what the market environment is.

Then you had a comment on the ROE. And yes, the ROE -- I will say clearly, when you have a 99.7% combined ratio, the ROE cannot be that good. In reality, that can be fascinating. To get to an ROE of 10% in AGCS, you need only a combined ratio of 97%, which is kind of interesting. So now you can discuss with a 10% is a good ROE, but somehow 97% will be the combined ratio where the ROE gets to 10%. And we are looking anyway at capital efficiency. Indeed, as you might have known, we have been looking how we can create more synergies between Euler Hermes and AGCS. We discussed that, I believe, also in some meetings. So I think we are going to have the possibility over the next 2, 3 years by changing some structures, some reinsurance program to get some additional capital efficiency in AGCS.

So the bottom line is if we achieve our target to bring AGCS combined ratio to 96%, which is still our target for 2021, and we also work on the capital efficiency, then our ROE should be definitely north of 10%.

Operator

We will now take our next question from Farooq Hanif from Crédit Suisse.

Farooq Hanif
Crédit Suisse AG, Research Division

Just want to go to, firstly, the U.K. So you're building potentially a higher stake in LV this year in Q4 and potentially more if LV puts to you the year after. I was wondering about your appetite now for the retail market in the U.K., particularly in the context of the regulatory review there of pricing, whether you are looking to build up further scale beyond kind of motor insurance in the market.

Second point is could you talk a little bit about how the European Direct Platform will support profitability in the direct business? What tangible benefits will that have maybe on loss ratio or expense ratio? And then lastly, just a clarification on Allianz Technology based on a question you asked earlier -- was asked earlier. I just want to make sure you're not suggesting we take the Q1 corporate number and multiply it by 4.

Giulio Terzariol
CFO & Member of the Board of Management

Okay. Maybe let's start with the last one. No, I would not do that because there is not just technology in those number. I could set the expectation that over time -- because our guidance for 2019 for the corporate segment is minus EUR 900 million and that might be a conservative guidance. And over time, I can definitely see the performance of the corporate segment definitely being better than the EUR 900 million guidance and going to the EUR 800 million below. So for the time being, I will not do for this year just the calculation we are going to end up significantly below the EUR 800 million threshold. For the time being, I will say you should assume that we might be better than our guidance but don't get too excited for 2019 yet on that.

On the European Direct Platform, I just tell you, in the next year, the European Direct Platform is going to be a drag on our combined ratio. And by the way, this is something that we had known as we gave ourselves a target of being a 93% combined ratio by 2021. And definitely, in the short term, the European Direct Platform is not going to contribute to get to the 93%. It's going to be a drag that we need to somehow offset with stronger performance somewhere else. Eventually, clearly, the expectation is that the Allianz Direct platform is going to contribute to our combined ratio. And as you can imagine, once we get to 93%, we would like to at least stay there. So eventually, the need to contribute to these kind of figures. If you remember, the Capital Market Day, we have indicated an expense ratio of 12%. Even assuming the expense ratio could be a little bit higher, then there is a lot of loss ratio that you can still tolerate and get to combined ratio which are very good. But over the next 2, 3 years, honestly speaking, Allianz Direct is going to be rather a drag. And the best way to assess the performance of Allianz Direct is going to be to see how much premium growth are we getting and also at what kind of combined ratio are going to get that growth. So if you tell me if we can get growth with a combined ratio of about 100%, I will say that will be a very good outcome. So if we can get healthy growth and keep the combined ratio at 100%, that will be, in my opinion, a good outcome.

And then you had a question about the U.K. and LV. Yes. Okay. By the end of the year, we are going to be a 70% for the LV business, which means also that at that point in time, we can start thinking seriously about integration. Your question was whether we have appetite for further acquisition in the U.K., you were referring clearly to [Sands], which is not motor. So I cannot speak too much into that because U.S. is my guy, so you're asking me the question but it's a logic question. I can just tell you that we don't need necessarily to acquire additional businesses in the U.K., but if there is a good opportunity at a good price, I think we can go for that.

Your question about how we view the U.K. because of the regulatory uncertainty, I would just tell you that the U.K. tends to be a little bit of a more challenging market compared to what we see in Europe. But eventually, I believe there is more of a cycle, if you want, in the U.K. But eventually, in the U.K., I believe if you have a good platform, you can create value over the cycle. But definitely, there is a little bit more volatility in the combined ratios in the U.K. compared to what we see in Continental Europe. But definitely, we are interested in getting some presence there. With the LV acquisition, I think we have accomplished the goal, and we have some opportunities we are going also to strengthen our franchise there.

Operator

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

Nick Holmes
Societe Generale Cross Asset Research

Just a couple of quick questions or quick-ish. Apologies. First, on capital generation, coming back to that subject, you said the reduction to 2% was due to growth. But my question is, how much was due to business mix within that growth? I mean, you've gone from 15% in 2018 to annualized 8% in Q1. Obviously, you're expecting better from that. And would you say, for example, that more than half of that difference was due to business mix changes, writing more traditional stuff than unit-linked? That's the first question. Then the second is just on U.S. variable and USV sales, CVs are doing it again. Wondered, can you remind us the guarantees that you're offering on these products?

Giulio Terzariol
CFO & Member of the Board of Management

Yes. So thank you for the capital generation. No, I don't think mix is making any significant difference. Also when we look at, let's see what happened in Q1, yes, we had more guaranteed business. But eventually, if you run the math, we might have had, let's say, EUR 500 million of present value of new business premium of additional guarantee business. And even if you apply, let's say, to be conservative, a very conservative factor 3 percentage point on that, that will be, what, EUR 50 million. So it's really not that material. So I would say the growth in P&C is definitely one of the drivers. And as I was saying before, 18 months ago, we were not necessarily calculating the business evolution the exact same way we are doing now, and now we have established this kind of rule of thumb which are giving us a better view also on the capital generation. But growth in P&C is definitely a driver of higher or lower capital generation.

Also one comment, also on the guarantee business. The -- even assuming that's a little bit of a conservative assumption that the capital requirement is 3% of premium, we are making 3% of value on new business there, margin. So from a solvency point of view, there will be even, if you want, equalization, right, there is enough capital which has generated as much as capital absorption. You wanted to ask a question?

Nick Holmes
Societe Generale Cross Asset Research

Yes. No, Giulio, that's incredibly clear and useful. Just one quick follow-up, which is you mentioned P&C a lot. Would you say that P&C is more than half of the...

Giulio Terzariol
CFO & Member of the Board of Management

Yes. I can tell you. Sure, sure, sure. When we look at the...

Nick Holmes
Societe Generale Cross Asset Research

Okay. Do you think really it's as important stat? Okay.

Giulio Terzariol
CFO & Member of the Board of Management

Okay. I'll give you the numbers. Yes, I can tell you. The EUR 300 million business evolution, over EUR 200 million are coming from P&C and then the rest, which is less than EUR 100 million, is coming between from Life. Where also to be very specific is in the first quarter 2019, we saw a little bit less release of technical provision for the in-force, but these kind of things can be chunky. But here, we are speaking really about EUR 20 million, EUR 30 million, more or less. And so at the end of the day, the main message is of the EUR 300 million, 2/3 is coming from P&C. And that's really an easy calculation. You take the premium, the 12-month rolling, then you apply a 30% charge. And this makes sense also. P&C business is capital intensive, more than people might think.

Nick Holmes
Societe Generale Cross Asset Research

That's very clear. And then...

Giulio Terzariol
CFO & Member of the Board of Management

And then you have -- so it's a difficult question to answer because there are different -- depending on the product, you might have products with a roll-up of 7% so, i.e. -- right now I would tell you that I can give you just a high-level answer. We are not concerned about the level of guarantees and especially assumption that we have in our VA business. So from that point of view, I would just tell you, first of all, we are not selling VA. Now since if you -- a few years. The majority, I will say, more than 50% of the block, maybe 60% of the block should be now the business sold after 2008, the financial crisis. From a guarantee point of view, there is not an easy answer like you might have for the fixed index annuity block. But fundamentally, I would tell you there is no concern about there is a level, I will call it this way.

Nick Holmes
Societe Generale Cross Asset Research

And you say there's no concern because you all -- is that right? The guarantees are hedged.

Giulio Terzariol
CFO & Member of the Board of Management

Yes. Because we -- yes. But also, at the end of the day, in reality, the assumption you need to look at when you look at the VA business is the lapse assumption. Because at the end of the day, as long as you're going to get the lapses that you think you're going to get, then you have set your expectation, the guarantee at the right level. Because if people are now lapsing, that's where you're going to see that there is more business which has a guarantee compared to what you thought. So we don't see any negative development on the lapse assumption. So from that point of view, we are seeing the book is performing as we expect.

And then in terms of the hedging, we are hedging the delta. We are hedging also the gamma. So we are also hedging for the gamma, then we're hedging the interest rate, at least for the business we see subject to interest rate sensitivity on the IFRS, which is the majority of our business. So the hedging program is functioning. And from a lapse assumption point of view or utilization assumption, all these kinds of things, we see they are behaving as we expect.

Also, one thing to keep in mind for the business, which we wrote after the financial crisis, 2008, we had the possibility to increase fees, which means if we see a negative deviation in the assumption, we can increase the fees, which also means if we see a positive deviation, we can decrease the fees. And the last action from the company was indeed to decrease the fees because the assumption were coming more favorable. And so in this case, to be fair to the policyholder, they are moving the fees down. And if we see one day that it goes in a different direction, we can change the fees up. But I would say the variable annuity business in the U.S., our variable annuity business is kind of limited and I would also say that we don't see any kind of negative development on this business at the moment.

Operator

We will now take our next question from Jonny Urwin from UBS.

Jonathan Peter Phillip Urwin
UBS Investment Bank, Research Division

So 2 quick ones for me, please. So solvency capital generation, the guidance is clear for 2019, but what are the moving parts that we should be thinking about beyond 2019, please? Will we stay around the 10-point mark unless growth slows? Or is there anything else picking up? Secondly, on pricing in [indiscernible], we're still running at good levels at 1.8%. It's pretty robust for that sort of area. Where is claims inflation in respect to that pricing movement? You flagged higher claims inflation on the U.S. commercial lines. Any commentary, that would be great.

Giulio Terzariol
CFO & Member of the Board of Management

Yes. So on the first question about the 10% guidance, absolutely, I will say this could be a good level of guidance also moving forward. And then on the price environment, that was a general question, right, about the price environment in -- yes, in general, and the claims inflation. On the claims inflation, I always look at claims inflation and also at frequency across the portfolio. And clearly, the situation is very different country-by-country and line of business by line of business. But in general, I will say that we don't see pressure coming from the loss trends compared to the pricing we are getting so in general. The situation can be a little bit different in one line of business versus the other. And the only thing that we might see sometimes in some of our companies, which is slightly different, we might see a pickup in large losses in commercial business. This is something that we've seen in different companies. But this has, in my opinion, nothing to do with the increasing trend in severity, in general. And on this case, it's clear, we need to look deeper the underwrite and determine whether this is an underwriting issue supposed to be normal volatility. But fundamentally, from a claims inflation point of view, I will say the situation is pretty, pretty stable compared to the pricing we are getting.

Jonathan Peter Phillip Urwin
UBS Investment Bank, Research Division

So is it fair to say that on average, pricing is tracking largely in line with expectation?

Giulio Terzariol
CFO & Member of the Board of Management

Yes. That will be nice.

Jonathan Peter Phillip Urwin
UBS Investment Bank, Research Division

And then just one final question on claims inflation. Are you seeing the higher U.S. jury awards that some of your peers are flagging?

Giulio Terzariol
CFO & Member of the Board of Management

Not at the moment, but this is -- we are not seeing this as an issue at the moment. But I could not exclude that this might become an issue moving forward, but we don't have this kind of development in the U.S.

Operator

We'll now take our next question from Michael Haid from Commerzbank.

Michael Hermann Haid
Commerzbank AG, Research Division

Two questions, on Allianz Leben and the ZZR. The Solvency II ratio which you disclosed in the SFCR reports on the solo entity level improved significantly from [indiscernible] to 478% at year-end 2018 despite lower interest rates in Germany. To my understanding, this was also driven by the change in the ZZR requirement. Maybe you do not know, but can you tell us how much the impact of the relaxed ZZR methodology was on the Solvency II ratio of Allianz Leben? My second question, also on German life insurance. I read that you increased the policyholder participation in Germany, and I wonder what is the motivation of this step. Is this a step which you were forced to do or which you deliberately did? Or is it just an IFRS accounting issue? Just interested to know.

Giulio Terzariol
CFO & Member of the Board of Management

Yes. I will say on the policyholder participation, it's more an IFRS -- the translation IFRS. And also, on a quarterly basis, even local accounting can be different. But fundamentally, we are not increasing the participation to the policyholder. My point is anyway that we know that we are crediting to the policyholder, we're dealing more than what the minimum participation might be. So fundamentally, we are run there, but for the time being, we are keeping the same exact policy, and there is no change in the participation, not negative or positive on a local basis. And then you have the question about the Solvency II ratio development at Allianz Leben. And I can tell you that the majority of the improvements has been driven by the change in ZZR. So I will say this is pretty much accounting for the big jump in solvency ratio that you saw in 2018.

Operator

We'll now take our next question from Michael Huttner from JPMorgan.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

So really quick question. You know the -- and you've kind of addressed it in many different ways. The attritional loss ratio, 69% Q1 '18 -- 63% -- 63.9% Q1 '19. After that, the large losses, the ones we know about, 80 bps. But what I'm a little bit surprised by is there is no fundamental improvement in that ratio. So even if I strip out large losses, it's kind of flat or slightly worse. Can you talk a little bit about that, please?

Giulio Terzariol
CFO & Member of the Board of Management

Yes. So the attritional loss ratio -- I will say, first of all, if I look at attritional loss ratio, clearly, there is no improvement, I will say, compared -- right now compared to what we had at the end of the year. But I'm looking clearly at adjusting all the numbers, which makes sense. But maybe I'll give you a different perspective because clearly, I see numbers that you cannot see, but I can give you a little bit of a hint. If you take our combined ratio in first quarter '19, which is 93.7%, and then you adjust for the natural catastrophe, there will be -- just round it out, there will be 95%, right? And then if you put the runoff on top, there will be about 98%. So there could be, if you want, a combined ratio before runoff, adjusted for natural catastrophe. And this is exactly the level that we had at the end of 2018 if you do the calculation there, right?

So from that point of view, what you see in the Q1 is a lot of consistency with the numbers that we had for the full year. So when also look at the attritional loss ratio, the one adjusted for natural catastrophe, weather-related and the large losses compared to the Q1 of 2018, I can tell you the numbers are very much consistent. So if you ask me, the book is performing right now the same way we saw it perform in the course of 2018, which makes sense because we adjust the first quarter or the next 3 years periods. So clearly, we want to go to 93%, but this is not going to happen in the first quarter of 2019. This should come over time.

Operator

We'll now take our next question from Dhruv Gahlaut from HSBC.

Dhruv Gahlaut
HSBC, Research Division

I've just got one left. In terms of the PIMCO, could you talk a bit more about this new fund you have launched, the closed fund, how big it is and what the revenue margin is on this?

Giulio Terzariol
CFO & Member of the Board of Management

Yes. So this is a fund, it's a closed-end fund, which is specialized in -- is a fixed income specialized in credits and in energy sector. And the fund is a size of about EUR 800 million. And the fee margin is about 130 basis points. So at the end of the day, if you run the math, about -- the payback period is about 2 to 3 years. That's how much we need to get our investment back. So if you ask me, it's a great business case. The only drawback or the business case is that because of some arcane accounting, you cannot capitalize the initial expenses. That's the only drawback. And we might see some other of these kind of transactions in the future, but the business case are very strong, very solid. So from that point of view, it's the exact transaction that we like a lot, but they might cause, again and again, some sort of volatility in our quarterly results.

Operator

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

James Austin Shuck
Citigroup Inc, Research Division

I just had a couple, please. So Giulio, I just want to check my understanding of what you were saying about the Life increase in SCR or the business evolution. So thank you for the split between P&C and Life. You mentioned EUR 100 million as the business evolution for Life. There's a capital requirement of 3% of the PVNBP, so that's around EUR 500 million. So just filling in the gaps. Should I assume that the capital lease from the back book is EUR 400 million that gets you to a net EUR 100 million? And if that is right, what is the trajectory for that capital lease over time, please.

And second question, just on AGI, I know you have a target for cost/income ratio below 70%. The cost/income ratio in Q1 was around 73%, and I think all the explanation about the high cost/income ratio in Asset Management was really relating to PIMCO. So just wondering about the trajectory for AGI, please.

Giulio Terzariol
CFO & Member of the Board of Management

Yes. So on the new business evolution, the 3% I was quoting is that will be a number for the guaranteed business but I also tend to be very conservative, just to make a point. When we run our calculation, we are applying indeed to the entire business -- the present value of new business premium, we apply a ratio of about slightly north of 1%. So that's what you can apply to the present value of the business premium. And the 3% is more me saying, okay, let's assume that on the guaranteed business, the capital consumption is way larger, let's even go for 3%, how much can it be in reality in the numbers. But you can use more a good 1% on the present value of new business premium.

To be playing nitty-gritty and all of you always tell me not to be very nitty-gritty, in reality, it should also deduct from the present value of new business premium the OEs, which are not included in Solvency II at all, but this is getting really nitty-gritty. But somehow you can use about 1% of our present value of new business premium, and this gives you a sense of the business evolution.

Then you had a question regarding the AGI. Yes. Keep in mind that in the first quarter, the cost/income ratio is high -- tends to be higher also because the performance fees are usually coming towards the end of the year. So if you look at the cost/income ratio AGI in first quarter, the first quarter of '18 was also about 73%. But then by the end of the year, I believe we were below 70%. So you should assume that in the course of the year, we are going to see -- you are going to see anyway an improvement of the cost/income ratio because of the performance fees. Also keep in mind that we've been able to reduce the cost/income ratio this quarter compared to the last quarter despite the asset base is being lower. So I will say that if you take a full year view, you can see that our ambition to achieve the 67% is definitely achievable.

James Austin Shuck
Citigroup Inc, Research Division

Just quickly on the capital side of things. I guess if I just take 1% of the PVNBP, that's going to be EUR 176 million or so, and you said business evolution is EUR 100 million. So I mean very -- and obviously, there's fewer OEs in there as you just mentioned. It doesn't look like then that there's material capital release from the back book. Am I missing something on that?

Giulio Terzariol
CFO & Member of the Board of Management

Yes. Depends on how much reserves are running off. For example, in the first quarter, the runoff of [indiscernible] was about EUR 4 billion and in the fourth quarter 2018 was about EUR 8 billion, so EUR 7 billion. So depending also -- the reserves are now running off necessarily on a linear basis. But really, look, we look at this number inside out as you see. And I will really say that we can overanalyze this number. At the end of the day, we are -- it's about whether we're going to have 3 or 2.5 of capital generation. I believe when you have it, it's a good capital generation. We have a good solvency ratio, and yes, we can definitely analyze this number further. But yes, I'm not so sure whether this is really helpful.

Operator

We will now take our next question from [Nicola Delaparma] from Exane BNP.

Unknown Analyst

I had a question on the Solvency 2020 review. Sorry if it's a little early and if it's from Q1 results. But just if you -- could you share with us if you have it the impact that you would face in case the last liquid point was moved by 10 years, which is one of the options that you look at? And is there any topic in the Solvency II review that in your view could be important dynamic for us? And Just anything that you watch particularly closely?

Giulio Terzariol
CFO & Member of the Board of Management

Yes. So on the Solvency II review, clearly, the moving -- the last liquid point is a key topic. And there will be, by the way, a negative for us, which I will say that could impact the solvency ratio by about 10 percentage points. On the other side, there are positive that might come into place, which is the treatment of the volatility adjuster. That's always something that's clearly we are pushing very strong because we believe that right now, Solvency II is a good framework, but one of the weaknesses is indeed in the treatment of the credit spreads.

And then also there is also a conversation, which is maybe less crucial but still important, which is about the risk margin, what is the cost of capital if you apply to the risk margin. And so this could be too positive. On the other side, the last liquid point, moving the last liquid points clearly might be -- there will be a negative. And then clearly the point is also not only if you move the last liquid point but also what the convergence might be. When we put together -- and by the way, on the last liquid point, the negative impairment even slightly higher than 10 percentage points. When we put the positive and negative together, there might be a wash in our case, but we don't know eventually what is going to happen.

Operator

We'll now take our next question from Michael Huttner from JPMorgan.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

My last question, I promise. Very, very simply -- simple question, just numbers. On your non-Life premiums, your P&C portfolio, how much of the business, of these premiums would you classify as property?

Giulio Terzariol
CFO & Member of the Board of Management

Oh, how much we will classify as property? We are taking -- but I would say, probably it might be 20% of the business. But we have the numbers, give me 1 sec. Yes, in total, I would say it's 27% will be classified as property.

Operator

There appears to be no further questions at this moment. I would like to turn the conference back to you, Mr. Schmidt, for any additional or closing remarks.

Oliver Schmidt
Head of Investor Relations

Yes. Thank you. I do believe we had enough questions for the day. So thanks to everybody for the participation on our call. Thanks for the questions. We say goodbye for now and wish you a pleasant remaining day. Goodbye.

Giulio Terzariol
CFO & Member of the Board of Management

Bye. Have a good day.

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