S&P Capital IQ

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Allianz SE DB:ALV

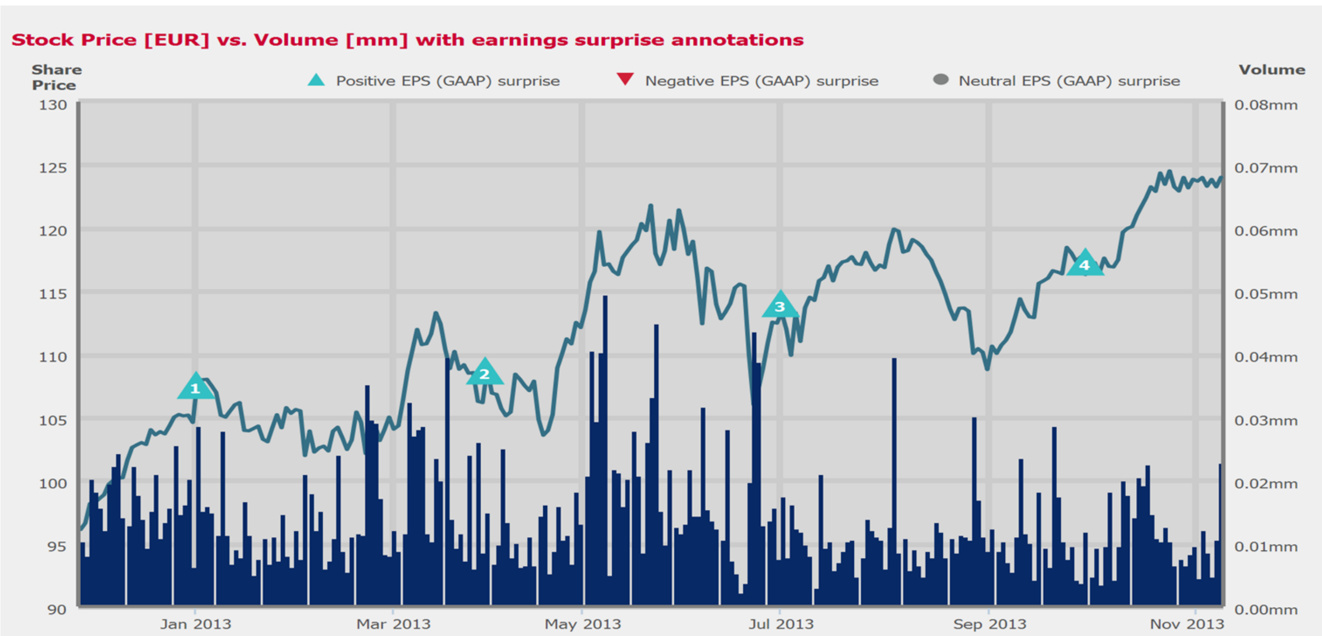
FY 2013 Earnings Call Transcripts

Thursday, February 27, 2014 1:30 PM GMT

S&P Capital IQ Estimates

	-FQ4 2013-			-FY 2013-		
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	ACTUAL	SURPRISE
EPS (GAAP)	3.10	2.72	▼(12.26 %)	13.30	13.05	▼(1.88 %)
Revenue (mm)	22630.33	26800.00	▲18.43	106154.73	110800.00	▲4.38

Currency: EUR
Consensus as of Feb-27-2014 11:37 AM GMT



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Presentation

Operator

Ladies and gentlemen, welcome to the Allianz Conference Call on the Financial Results 2013. For your information, this conference is being recorded. At this time, I would like to turn the conference over to your host today, Mr. Oliver Schmidt, Head of Investor Relations. Please go ahead, sir.

Oliver Schmidt
Head of Investor Relations

Thank you, Barbara. Yes, good afternoon from my side as well, and welcome to our conference call about the results of fiscal 2013. I have a full house here today. Dieter will kick it off with the key numbers, then Max will talk about our investments and last but not least, Michael will wrap it up and focus on the way forward.

Before I hand over to Dieter, allow me a quick remark with regards to timing. We intend to limit this call to 2 hours, so after roughly 1 hour for the presentations, we should have another hour left for the questions and answers, and I hope that it's sufficient to cover most of your important questions. If not, you may, of course, call the Investor Relations team afterwards.

Let me remind you that we will host 3 additional analyst meetings, one already tomorrow in Frankfurt; and the other 2 next week, one in London and one in Paris.

All right. That's all for my side. And with that, I hand over to Dieter.

Dieter F. Wemmer
CFO & Member of Management Board

Okay. So good afternoon, and good morning wherever you have dialed in. I have a real pleasure to present you the Q4 numbers of Allianz and the full year results 2013.

Starting with the Q4 highlights. Operating profits and shareholders' net income slightly up against Q4 in 2012, but actually Q4 had some special one-offs you should consider. There is, on one hand, the write-downs we did for restructurings of Korean Life business, I will touch on it later, that made about EUR 144 million in operating profits. We have some goods in EUR 90 million in various restructuring charges in Italy, Belgium, but also Germany. And we have, additionally, which hit shareholders' net income, an additional tax charge in Italy of EUR 160 million, which was based on a late announcement of the Italian government, actually to increase the regular tax rate for the financial service industry in Italy by 8.5 percentage points. And as Italy was, for us, in particular, successful in 2013, it did cost us quite a lot of money, but it is affecting all insurance companies and banks, depending on their net income, in the same way. So those were special effects which have to be added back maybe to the Q4 numbers. If you want to make it more comparable, there's a flow you got used to in the first 3 quarters.

So let's move on to the overall results. EUR 111 billion revenues for the year is a record number for the group, and this group has achieved despite really a very strong euro, in particular, at year end. The foreign currency effect included in the number are EUR 1.8 billion, so that means, on a like-on-like basis, we would have achieved EUR 113 billion revenues.

Operating profit was EUR 10.1 billion. We are above the number we actually had given you as an updated outlook in Q3, where we believed we would end up a little bit short of EUR 10 billion. And I think the difference is very much an excellent P&C result in the fourth quarter, which was, in particular, driven by very low NatCat in the last 2 months. We had heavy cat loads in the second and third quarter, and then almost nothing in the fourth quarter in relative terms.

So let's move on to our capital position. Shareholders' equity over 12 months, unchanged, and a number of positive and negative effects. So yes, EUR 6 billion net profit added, EUR 2 billion paid out dividend, EUR 1.2 billion lost in foreign currency translation and then the remaining difference is, in particular, lost unrealized gains which make the bulk of it. That ends up then in an unchanged Solvency I ratio, where -- to remind you, the Solvency I ratio is not sensitive to fixed income valuation because bonus are considered as amortized cost. However, as we have redeemed high growth of EUR 1.5 billion through our capital base, got smaller in this calculation relative to the shareholders' equity.

Economic solvency up, reflecting 2 main effects. On one hand, the upwards trend of the interest rate curves in particular in Q4 that helps always all the Life valuation, as you know. And the other important factor is actually the reduction of credit risk we see -- as we were [ph], and the main contributor in our credit risk evaluation are European financials for the bank, then our diversification away from bank and also Southern European government bonds, plus the better spread environment for the European government bonds itself. So all in all, credit risk went down despite the de-risking efforts we did in our investment portfolio as announced and as Max will talk about it in the next presentation.

I will spend a few more seconds on this slide because we are making here a statement that our economic solvency will, when we move to Solvency II final calibration, will probably go down, let's say, around 30 points. So is this [indiscernible]? No, because whether you have a Solvency II ratio of 220%, or 180%, or 190%, that is really not making any difference because the target is 100% Solvency II ratio, and certainly, as a group, we want to keep a buffer above it that we can also stand a new renewed financial crisis far in the future or near in the future. So therefore, it's more announcement of a number change and not of a content change because we are still running under the Standard & Poor's model AA with a surplus margin, which actually expanded slightly during the year 2003 [ph], so our capital base is as strong as ever. And I would call our current position absolutely fit and proper for purpose in Solvency II and whatever else is coming.

We have, of course, deducted in the economic solvency ratio our new dividend as we are proposing it of EUR 5.30, which is 18% above the last one.

Now on Page 9, let's turn to the growth numbers in P&C. The top line face value is a reduction of 0.7% explained by FX impact. Heavily impact in FX is Turkey, Latin America, but also Australia, where we lost, for example, EUR 300 million due to the value reduction of the Australian dollar. So when we correct for FX, also take out acquisitions which were positive in the year, and then take out the crop [ph] where we had the partial exit, as I explained already in previous quarters, our underlying growth is 2.5% driven by France, that is still follow-on [ph] and the acquisition, but then in particular, Allianz Worldwide Partners and Turkey, which had a very strong internal growth. And you see, yes, Turkey, you will probably ask the question, is this a problem with the lira tanking so strongly, and we paid the money in summer where the lira was more expensive. Actually, when you run the DCF models, you use a new exchange rate and you apply the increased interest rates, what we are earning, in particular, for the pension business that completely equals in the DCF models, even by using an extended discount rate.

Page 11, the P&C -- underlying P&C results. So it was a year where we actually used up more or less fully our Cap budget. We have budgeted for the year to serve [ph] in cat adds [ph] 3.2 percentage points and the cat load is 2.9%, so it's very much a full utilization of the cat budget. So the increased cat losses of the year were very much numerically equalized by the higher run-off ratio, although the 2 are absolutely not connected.

Why is the run-off ratio higher than 2012? Well, actually, when you look at all the positive run-offs of the OEs, we are very much at the 2012 level. But in 2012, we had a negative reserve strengthening in the U.S., and if you add this back, because the U.S. was pretty flat in reserve movement in 2013, you are ending up with a 2013 run-off number. And I think it reflects 3 things: our anyway conservative reserving policy, which should lead to a 2.5% to 3% run-off result over a longer period, our 10-year average is 3.2 percentage points, and this combined and aligned with a very friendly underwriting cycle, plus the almost deflationary trends you see in Europe and also in the U.S., which allows us to benefit from very low claims inflation.

So in summary, the 2 percentage point improvement in combined ratio is very much linked to underlying loss ratio improvement. Actually, the expense ratio deteriorated by 50 base points, so it is all better underwriting results reflects our underwriting and pricing discipline and all the actions we have taken, and should lead us also in an even more exciting year 2014.

Page 13. The operating profits by major country shows you that our combined ratios are quite nicely spread. Clearly, the profit leader in 2013 is Italy, therefore, we had to pay also the higher taxes there. 78% combined ratio in Italy is also in the underlying numbers, a slight improvement over 2012. But in particular, we had higher run-off from reserves in Italy, which makes almost 7 percentage points for the country.

I think on the other one, I don't need to touch. Maybe Germany, because we have this target out there for 2014, the 99.5%. Below 100%, I think, that was, for us, a very nice positive surprise because after the heavy weather-related losses in Q2 and Q3, we did not believe that we would touch the 100% in 2013, and you can also see that the number includes 8.5 percentage points of this cat events. Our normalized assumption for Germany is 4%, so that we would have ended with a normal cat loads a year with 95.3%, demonstrating an underlying that we are really on track with achieving our 2014 target as we presented to you in the May Capital Markets Day.

P&C, current yield on debt securities, next page. Current yields further going down in the year 2013, 30 base points down. The reduction in yields was probably a bit more heavy than you would expect from a normal run-off of the portfolio, but we would used in the second half 2012 and also beginning '13, our exposure to Italian and Spanish government bonds, which certainly were not replaced by equal yielding investments.

So the trend for next year, we will see further reductions in the current yield, but at a -- reduction at a slower speed because reinvestment yields are still below the 3.3% we have currently in the portfolio. Actually, in Q4, we were at 81 base points, so that's good for 12 months already [ph] give you some 3.25% yield as a starting point for 2014.

Now turning to Life. Actually, clearly, the biggest success in growth for the year, 8.5% top line growth for a large global portfolio is a tremendous number. In particular, as a lot of it was achieved in matured markets and in markets where the economy, in general, is not doing well. And I think we are outperforming, in particular, in Southern Europe. Clearly, the market, starting with Spain, where we are in a shrinking market, 14% up; and also in Italy, where the market has some growth, but certainly, not the 32% you see in our numbers. But it's a continued success of our new unit-linked product, which sold in total 1.3 -- or created EUR 1.3 billion new premium for the whole year.

U.S. looks flat in euro; 4% up in U.S. dollars. And here, actually, we closed the gap in fixed index annuities, which we created in the second and third quarter, and we are back to our old market share in the fixed index annuity markets in Q4. That should be around 16% market share but, of course, the Q4 numbers are still a bit preliminary on market shares.

So let's turn to the operating profit in Life. It is down against 2012, and in particular, the fourth quarter number was lower, maybe also lower than some of you have expected. But there are a couple of special effects. There is, on one hand, the Korean case I have already spoken about. So Korea affected the investment margin because we increased some reserves for long-tail kensa [ph] and [indiscernible] product. We wrote down, attached back to this product lines. And also, we build a restructuring charge of EUR 34 million for Korea.

So the next special effect is actually a fair value valuation from -- of foreign currency exposure, balance sheets, in particular the German Life business where we have invested also in foreign currency bonds, and with the strength of the euro, the FX effect is immediately hitting the P&L. And last but not least, we are using derivatives for our duration management, as many people do, to extend our duration that created nice profits in over the last 16 or 20 quarters, probably, with falling yields. But Q4, of course, had a hike-up [ph] in the yield, so therefore, they ended up with negative numbers, which is not surprising.

Last point in Germany, we increased our policyholder participation in Germany for the year to strengthen our local policyholder surplus fund and also the solvency that is an investment in the strategic strength of the business, and should be being paid back by better new business in the future.

Page 21. Value of new business was certainly disappointing in 2012, has recovered back to almost EUR 1 billion. The 2.1% new business margin should not be the end of the story. The last quarter was already at 2.6%. And when you go to recalculate the new business for the last 12 months with the interest rates of year end, then we would have shown already 2.4%. And I give you this calculation more as a starting point for 2014, that actually a 2.5% new business margin. It's possible when the interest rates stay [indiscernible] and that's December.

Our Page 23 is the usual checkpoint. Are we still safely ahead of our guarantees? And when you look at the numbers, the safety margin over our guarantees has not changed a lot. We are still very much ahead of our guarantee, which did reduce by 10 base points. The current yields number and also the net harvesting number were influenced by the individual movements I have explained before, so it's -- I think for 2014, the numbers are actually still very good. We had as a margin, all we said for the year 2013 that our expected level is some 75 base points, and I think we would not change this outlook.

25. Market consistent embedded value, nicely up, driven by 3 factors. Number one, we have always a built in strong contribution from the in force business as our investment yields are above what is used for the market consistent calculation, so there were 3 rates. Then we added EUR 1 billion in new business value and economic variances, in particular, the lift up of the swap curve that helped, of course, a lot. The EUR 2.1 billion net capital movement, our dividends is cleaned up by the Life units to the center as part of our activity to centralize more of our funds. Is this a sustainable number of our Life segment we see for the next periods? Actually, the dividend more at the range of EUR 1.4 billion. We had 2 special effects in the numbers coming from Germany and Italy which are not repeatable.

So 2 -- now turning to the Asset Management business. Well, the title says strong euro weighs on assets under management, and actually, the euro-dollar exchange rate is the biggest mover of our assets under management number. Our assets under management, I'm only looking at the third-party money, went down by 5.4%. And out of the 5.4%, 4.4% is the exchange rate impact, the outflows make 1.4% and the market value change is just 0.1%, and the market value change isn't offsetting between the equity funds and the fixed income funds. So overall, a very strong asset management base, in particular, the average assets under management base during the year are the driver for the record high fees you'll see on the following page.

With EUR 7.1 billion, we reached a new record level on fees, 6% up after the softening of the dollar and it is actually an improved fee income from both, from PIMCO, as well as Allianz Global Investors, which are adding nicely to the overall fee position. Also a very important point for you is, how did the assets under management margin develop? The average for the year 2013 is here shown at 44.9; Q4 stand-alone is 44.5, so 0.6 points higher than the average of the year. Also a good finish in Q4.

Translating the fee into operating profit. Operating profit, 7% up. Could have been 10%, so we still count that the dollar helps us in the future. And it is very much volume- and margin-driven as the slide shows you here, where, on performance fees, you'll see already the first step to normalization. We are EUR 250 million lower than the year before, and this trend will continue also in 2014. Please remember that we had a couple of private funds mainly investing into subprime mortgages and really created fantastic returns for the investors, and also very decent performance fees for the fund managers. And we are currently building up a new generation of these funds, and I hope we can talk about it in the following quarters. But at the moment, we don't see any performance fees coming out of this.

Now finalizing the segment analysis by a short look to the corporate segment. A minus of EUR 1 billion is a very good end of the year. We had a number of one-offs which -- on investment income and also release of some old provisions, which helped here, but also, it had to compensate for higher pension costs in the year. So actually, the improvement are quite nice. And also please look at Banking segment, minus EUR 91 million for the year 2013. That is mainly driven by the restructuring cost we had to book for closing Allianz Bank in Germany, so that is an amount which should not repeat. Without this, the Banking result was more or less flat or close to 0 in 2013.

Now summarizing the operating results to net income. As already -- during the first 9 months of the year, we had a good flow of realized gains, less impairments and also less extra amortization of intangible assets. In the last quarter, we booked one further impairment on one of our private equity investments called Selecta. That is for sure now the last impairment on this investment as we are now carrying it at 0 in our balance sheet.

So that resulted then in total in EUR 422 million negative on non-operating items, also improved by EUR 100 million less cost on our external debt expenses, giving an income before tax of EUR 9.6 billion. Income tax moved up in line with the profit, but our effective tax rate could -- ended up at 34% and could have ended the year slightly below 33% without this nice year-end gift of the Italian government.

And with this one, let me summarize our results. Record revenues at EUR 111 billion. Operating profit in absolute terms on a high level and in particular, back to the level you have seen pre-financial crisis in 2006 and '07. And as we promised, we will drive a higher dividend by moving shareholders' net income up, and we delivered on this. And all this, with a strong capital and balance sheet position, a balance sheet position sitting [ph] proper for Solvency II and whatever systemic risk will bring to us.

Maximilian Zimmerer
Former Member of Management Board

Good morning, and good afternoon. Now we go to Chapter B, investments. Let's start with the first page, that's B3. As you can see, there were not many changes or big changes in our structured fee portfolio overall, and you can say that 1/5 of the portfolio, that's a yearly turnover, that means we do new investments, in that respect, last year was a pretty good year. And with the tapering even we saw in higher interest rates. Overall, it was positive for us. And I think we profited also from the equity movement because we invested additional money into equities, but also into real estate.

As you can see, we have 7% invested in equities, which includes private equity and 2% in real estate. This is the IFRS number, which should add up the hidden reserves, which are not shown according to IFRS and also the real estate for own use. And we would have a real estate exposure of 4%, that means EUR 22.7 billion overall.

There were no big changes on the duration side. And on the Life side, yes, it is still at 7.6 MS duration, that is unchanged. And overall, there was only a small change in the P&C side that is into the very high get [ph] in the yield curve, that means you are rewarded if you go a little bit longer in that respect.

Now turning to Page B4. That is to give you at least the impression of the investment performance, it's according to IFRS, that's not much really total return. But it starts with the current yield we have of 3.8%. And then realized gains and losses and impairments, if you add up, then also investment expenses and the trading results, you end up with IFRS yield of 4.0%. And then that is only due to the rising interest rates, we have lost some of our unrealized gains. And -- but also, if you're rolling down the yield curve effect overall and that comes up in the end, or adds up to a total performance of 1.1%. In comparison to that, the bund 10 years lost 2.5%; and U.S. aggregate, 2.0%. That means, overall, it's okay. I do not think it's satisfying. But I think, overall, in this market, it's okay.

Now turning to Page B5. What we have changed, only a selection out of that. As I already mentioned, we increased the equity portion by actively buying equity, that comes up to EUR 6.1 billion, and also real estate, infrastructure and renewables, additional EUR 2.7 billion. We invested, overall, that's consumed around EUR 1 billion additional risk capital. That is after dollar certification [ph] effect. And then also, we invested in more alternative debt, where we get much higher yield, EUR 3.3 billion. And on the corporate side, it was mainly switching from bank debt to non-financial. And we are still, I think, overall is a market by weight [ph] interest rate, especially reduce the Tier 1 and Tier 2 as we did also in the year 2012. We have to be aware that there will be the stress test this year. And due to the our security [ph], we reduced overall our exposure to fund [ph].

Treasuries, it was mainly that we [indiscernible] have this concentration risk in the local portfolios, and that means we reduced also peripherals but also, especially, the concentration risk in the individual OE portfolios. This reduction, overall, cost us some performance, only to say that the best performing fixed income assets were Italian bonds and Spanish bonds, only to say that also. And -- but as soon as we have seen [ph] a lot of concentration, also, [indiscernible] the indices itself in that respect.

Now turning to B6, what we did on the direct financing side that includes debt and equity. These are all the investments which are not listed. And as you can see, we grew nearly in all segments, and especially so in our mortgages and -- but also private placements. And right now, and there is, I think, also very positive, we could increase our real estate exposure by more than EUR 2 billion overall. Right now, we have invested around 12% in these non-listed M [ph] securities or assets. Overall, our overall target would come up to EUR 80 billion, but it's a moving target. As you know, it's a little bit difficult because -- and it is not so easy to increase the portfolio in this segment.

Now turning to Page B7, these are the new investments -- the new investments yields for 2013. As you can see on the P&C side, overall, the reinvestment yield was only at 2.5% as compared to 3.0% in the year before. And on the Life side, it was at 3.2% due to the longer durations that compares into last year that was the 3.6% overall. What's interesting, real estate -- real assets, overall, including dividends from equities, we achieved a current yield of 5%. That seems not very logical. In real assets, the current yield is, from the beginning, lower than on the bond side, that makes us think, especially these asset classes right now relatively attractive to fewer fixed income investments.

Now turning to Page B8. We have seen already, I think, some more details in the presentation of Dieter. Therefore, I think I should not explain in too many details. What we can see, overall, on the new business side, that's on the right-hand side of the picture, that we have reinvested here of 3.2%, and that compares to a guarantee -- average guarantee in the Life business of only 1.2%. To remind you, last year, in year 2012, the average guarantee for new business was at 1.7%, that means we are really striving for hybrid products, hybrid products with a lower guarantee, but that is the positive story for the customer also with higher yields. That means usually there's an equity element in there that makes it also very attractive for the customer.

Now turning to Page B9, that's the last page overall. We are positive for the economic development worldwide. That means we estimated GDP growth of 3%. Tapering will go on, I think, overall. And unfortunately, the spreads will remain tight, that means it's difficult to earn additional spreads on the fixed income side. The emerging markets, I think, are not one market. You have to differentiate country per country. At least the countries [indiscernible] deficit, overall, have also weakened. Currencies, overall, therefore, we have to differentiate what we already also doing. But we are, I think, pretty optimistic for this year, overall, for the capital markets.

Thank you very much.

Michael Diekmann
Chairman of Supervisory Board

Thank you very much. This is Michael. If Max is optimistic, then I'm optimistic as well. And I'm turning to Page 2 of my presentation.

Just looking back at 2013, I would say profit growth, capital ratios, operating performance and the ongoing improvements of our operating models are good. Obviously, difficult, as everybody knows, is the reinvestment environment. The tapering discussion and the influence on our fixed income management was difficult. And I'm as unhappy as you about many uncertainties left regarding regulation or regulatory items. Now obviously, the concentration of NatCat in Germany was bad. Dieter has elaborated on that, and foreign exchange rates are jumping more down than up. So that's bad for 2013. Hopefully, [indiscernible] for 2014.

If I look at the business highlights in 2013, I'm turning to Page 3 now, is that we grew our customer base by 5 million. 3 million of that is related to our acquisition in Turkey; 2 million is organic growth, that's a good message. We've done the shift to what we call capital-light product on the Life side. I think that was very successful if I look at Italy, if I look at Germany. Then we've come up with very attractive products, modular products, that's a continuation of our products strategy in Germany. And also, good to see some growth in the fixed indexed annuities in the U.S., where we maintained our strong market position.

Now on the Asset Management side, we are diversifying away from one name. I think it's good that the market has acknowledged that. Morningstar has named 2 PIMCO guys as Fixed-Income Managers of the Year. Obviously, Turkey is a good investment, good acquisition and it has elaborated how the trade-off works between currency movements and interest rates. And then I would just like to add, again, which is important for our marketing, that we've been named the sustainability leader by the Dow Jones Indices, and then the AA rating upgrade to stable and the good assessment of our Allianz risk management capabilities.

I'm turning to Page 4 now. A lot of this has been said now. I think the result, looking at the increase to the year 2012, is good. I've read a couple of your comments this morning. Most of you said it's in line with expectations. It is stronger on P&C; a little weaker on Life. But I think that has been explained and that was a good investment into future performance on the Life side.

Now, we've promised you in our meetings over the last year, we're going to try to improve the translation between operating profit and net income. That was part of our fierce discussion about, where is the money and how can we get to the money?

So I'm turning to Page 5 now, and here you see a couple of things. First, the operating profit, and you see that the non-operating items are basically not as dominant as they used to be in the past years. I think that's a good message. And then the translation is 68% instead of the 54% in last year. So as I keep a very high regard to trust and communication and then delivery on communication, I think that is one of the points that I'm really proud about.

Another point, Page 6, trust on communication. You wanted to know from us, how are we investing the money? And we promised you we're going to give you an explanation for that. Now taking into consideration that we are doing a little mix of net income, of cash flows and risk capital, that's as good as an approximation as we can get to. We communicated we'll use 40% for dividend, 20% for internal growth, 20% for external growth and 20% to loan Max to buy into real assets. Now on the right-hand side, you can see that internal growth amounted to the risk capital of additional EUR 1.1 billion; external growth was EUR 1 billion; and the shift to real assets costed us another EUR 1 billion of risk capital; EUR 2 billion were cashed out for the dividend for last year, so that we pretty much used the net income number according to what we said and promised.

Now on the acquisition strategy you know that we are trying to prove to you that we keep rational and don't want to spend too much money on it, but do some smart stuff that helps us to gain scale and distribution power. We've done the insurance distribution agreement with HSBC for Continental Europe, very much in line with our Turkey strategy. And then we did the acquisition of Yapi Kredi, and we've entered into a European automotive partnership with Ford. It didn't cost us anything. And then we are, as you know, in exclusive negotiations with Unipol in Italy. So I think that's all very consistent with our communication.

Turning to Page 8. The Supervisory Board yesterday has authorized the announcement of our dividend proposal. That's EUR 5.30. I have read a couple of comments that, that is short of the expectation by some EUR 0.08. I think it's an FX translation, hopefully, of our 40% payout ratio. And again, I'm happy that was 18% improvement over 2014. At least you don't scream at us when we knock at your door tomorrow or the days after.

Now we obviously totally understand the capital management issue, and I would like to thank everybody here for participating in our Investor Survey. That was a very clear point. By the way, not coming as a surprise. So we've talked to our Supervisory Board yesterday saying that we need to table this for 2014. The minute we have a little bit more of clarity what comes out of Solvency II, what comes out of the global systemic discussion, and we want to come out to you with what is the capital management going to go forward? Linking it better to cash flows and excess capital during the course of the year. Now there was a question, are we going to do this on our Capital Markets Day? I can't promise that because I don't know when we would be ready. But we are targeting to do this during the course of the year. So we won't postpone it into next year. That's the message really.

We do have a couple of interesting initiatives, and I'm turning to Page 10 now. For 2014, obviously, on top of everything is the target achievement. In P&C in Germany, we still have some integration work to do in Turkey. Our merger in Benelux is working very well, but we have to finalize that. We've just started last month the Iberian platform in Brazil with good expectations. There are some more work to do in Allianz Worldwide Partners, where we are now integrating the hedge portfolio from Allianz France. We have started our IT center consolidation project. That gets us down to 6 instead of 140 today. That's obviously something that will run for, not only 2014, but we are targeting 2017 to be ready. The restructuring time and [indiscernible] obviously, we do make some good progress in China. We have a reinsurance program where we increased the sessions [ph] to Allianz with -- we have a higher volume than some negotiators or reinsurance partners. And we have some FTE-reduction programs that Dieter has alluded to.

On the products side, we are full speed working on our modular products, learning from markets where we've already introduced them. To the markets infusion, our algorithm machine is being used. We do have a strategy to deal on the mid-corp P&C side. The -- we have some very promising products in Germany on the cat side that goes also for retail and corporate care, but also for corporate heads. Quite interesting progress here. Obviously, we have some work to do on non-traditional fixed income, and our global corporate pension initiatives is getting traction as well.

On the distribution side, we do further rollout for our Agency Future Program; our multi-access strategy; our digital agency in Italy that we've talked to you about; FastQuote is now being exported in some other markets; Global Automotive is making good progress; our broker initiative; and now getting Life into our HSBC distribution agreements.

Now on Page 11, we've shown you the Southern Europe where obviously, the business environment is difficult. We've been able to achieve a 3 percentage growth there on the P&C side against a declining market. It was a great combined ratio of 84% across all these 5 countries. A lot of that is really technology-driven, so here's the rollout plan on the right-hand side for FastQuote. For Telematics, digital agency, we're still in discussion how fast we can transfer that to other markets. And on the Iberian platform, I talked about Brazil, and now we're checking on the remaining countries, Mexico and Argentina.

On Page 12, the de-risking and product innovation, I don't want to talk too much about that because I think that has been covered. There is quite some good progress in increasing the share of protection, health and unit linked. That was 31%. We are aware that we are lagging behind some of our competitors. But I think to maintain the growth, while you're shifting the product side in a very heavily influenced-type agent markets like Germany is a good indicator. You know that everybody here has understood what needs to be done, and the marketing of [indiscernible] has been good because there was a lot of resistance on the media side, at least.

So on the Asset Management side, we do have a couple of product innovations, and they are already contributing to our third-party business. We've lined up a couple of things here. Allianz Global Investors. That's just been in the U.K. We've got a lot of praise for our infrastructure debt team there. The active ETFs from PIMCO are working great. We do have over EUR 20 billion now. So there's something in -- that happened on the Asset Management side that keeps me pretty optimistic.

Which gets me then to the operating profit outlook. So it's EUR 10 billion +/- EUR 500 million. I think that is strong and confident. You know that we've always shied away a little bit from touching the EUR 10 billion. Now we have them. It's our midpoint. And yes, you are right, we expect major delivery in the P&C side, with hopefully some upside on the Life and on the Asset Management side. And if Dieter wants to make a big bonus, then he will drive corporate down. And with that one -- oh, by the way, happy birthday to Dieter because it's his birthday today. It was the outlook for great bonus, huh? Isn't that?

So with that one, I would like to stop. And then we're going to start the Q&A.

Dieter F. Wemmer
CFO & Member of Management Board
Yes, we have to take questions now. Thank you, Michael.

Question and Answer

Operator

[Operator Instructions] We will now take our first question from Michael Huttner from JPMorgan.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

Just a couple of questions. The first one on Slide A51. Dieter, you said on your presentation that we shouldn't be worried about Solvency, but here, it does say we should worry about Solvency. Significant uncertainties remain. Is there any way that you can allay my fears? I'm sure the market is happy, but I was kind of concerned here, maybe some numbers -- I don't know what you can say. And then a more detailed point, kind of a nitty-gritty point. So Non-Life, as you said, was still improving. And Mike, could you possibly say which countries it's improving in? Just to give us a feel for the granularity in terms of the underlying, so I guess, excluding reserve releases and all that. My guess is it's Germany, but you're in lots of countries. And if I could add a few more to my list, it'd be lovely.

Michael Diekmann
Chairman of Supervisory Board

I would like to answer the second question. That's obviously, Germany because of the 99% compared [ph] from the 95% that are -- is the target. And then, obviously, we need further improvement in Fireman's Fund. And then we're going to see some improvements in Turkey, obviously, from the acquisition. And hopefully, some movement in France. And if I look at currency, I think that's what you need to hear as well, if I look at Australia and other markets [ph].

Dieter F. Wemmer
CFO & Member of Management Board

Yes, I think I have maybe to make my points on the Solvency II more clear. We have put the page in and also the explanation that you are not getting fixated on this 220% Solvency ratio and state this as the Holy Grail to distinguish between what is good and bad. We don't know yet the final Solvency II ratio very simple because the EIOPA as well as the EU Commission are frantically working on completing all the technical notes. And there is, on one hand, the delegated acts [ph] that are the papers to be written by the EU Commission. And then there are the technical papers to be written by EIOPA. In total, we are missing, at the moment, 61 technical notes which are explaining and detailing calculation to be done in our models. Plus we have an internal model approval process where a college [ph] of more than a dozen supervisors has to agree on all the calculation procedures to be done. That means what we are saying is that the number will change, not that the quality is changing. And I think here it's very much number one-on-one being translated into quality, and that is I think the one approach. In the end, a lot of insurance companies are still fighting and hoping that they get somewhere close to the 100% Solvency II ratio. We are starting at the moment with 220%, and we are talking maybe after all calibration, it ends up, let's say, at 180%. So what is the problem with 180%? 180% will not impact our decision to invest into risk, to invest in new external growth, in internal growth or our dividend policy. As Michael said, the dividend policy will be driven by investment opportunities in the market as the cash flow is produced and nothing else. Our Solvency II ratio is not a hurdled expense in the way, and that was the only message we are trying to make. And personally, I'm not able to explain to anybody whether 180% or 220% is a better ratio. Yes, it's a different number, but it has not any quality linked to it because the whole level, what is the good and the bad calibration that we will know in a couple of years when we have all started to use Solvency II. I am very relaxed because whatever would be a problem for us, then the rest of the industry is really in trouble, and therefore, we take it really from a leading position and not from a depressed position.

Operator

Our next question today comes from Peter Eliot from Berenberg.

Peter Eliot
Berenberg, Research Division

First thing, I'm sorry, to -- I don't usually [ph] follow-up on Michael's question. But still, just on that 20% to 30%, I was -- I guess, specifically, what is on my mind is when you come to look at your capital management's program across 2014 and you look at the excess capital position, it sounds very much like, from what you're saying Dieter, that 20% to 30% that you've put in there hasn't -- should have no impact, really, on your view of the excess capital position. Perhaps if you could just sort of confirm that. That's the first point. And the second thing I was going to ask on that was that, you've labeled 2 positives and 2 negatives there. Are you able to give us of any sort of feel for the magnitude of those numbers at all? And then, perhaps, if I could just ask on a second area in terms of the guidance you've given. Specifically, if I look at the Asset Management division, you're guiding to EUR 200 million lower this year than you were last year. When I look at assets under management, 4% lower in euro terms, but margins are quite a lot better. I guess the implication is that you're factoring in some deterioration in flows or, perhaps, not fully sustainable margin, which wouldn't be necessarily an unreasonable assumption, but I'm just wondering, if you perhaps clarify what's gone into your thinking there, perhaps just a broader comment. In the press release, you commented on sort of guiding to maintaining the result you've achieved for 2013, and I'm just wondering to what effect that -- what you achieved in 2013 has gone into the guidance for the group?

Dieter F. Wemmer
CFO & Member of Management Board

Peter, that's -- well, first of all, I think the excess capital discussion will be finalized when we have really an approved model, when all calculations are done. And then we have also to define our stress buffers, because you have all to remember it is a very volatile measurement. And when input rates go substantially up, then our solvency ratio will go up substantially. So what we have at the moment is -- actually, we are, at the moment, still conservative with the fungibility of the capital between the various entities. So what we have now received as guidance, so there is a very positive uplift to our number. But then there is -- actually, the discussion at the moment that some regulators are pushing that there should be a credit risk for severance being included. If this is being included, the number goes down and the credit risk for severance makes, for example, 20 points in our calculation. Would this be a level playing field with the banks? Probably no, because I think that the banks would really look very ugly when they have to include the risk charge for all government bonds. Then there is -- we are reducing the scope of our internal model. That means, in some countries, we fall back to the standard model, because that reduces also the number of regulators we have to negotiate with simultaneously and makes probably the implementation simpler. Then at the moment, internal pension are included on an IAS 19 [ph] level, but there is no risk capital charge for internal pension. So that are all things which have to be discussed. And then there is also very simple -- the fine-tuning of all the parameters. So how does the volatility adjust -- really being calculated? What shift in the unit growth is the final outcome that is, at the moment, up in the air? So that are a bit the various points to be considered. And I think we will stay in a very strong capital position. And as I said before, capital management and our expansion of business, our dividend policy, I do not believe it will be affected whether the number says EUR 220 million or EUR 190 million. These are different criteria to decide. So on assets under management, you are actually pointing to something we have forgotten to explain. At the moment, our Asset Management segment has more than the 2 asset managers, the PIMCO and Allianz Global Investors. There's always a column which is called Other. These are some small asset manager -- well, actually, nice asset manager in Spain and Eastern Europe. They produce together short of EUR 100 million operating profit. And as they are being managed by the local Life companies, it is from a management responsibility, more reasonable to show them under the Life segment and under Asset Management. So it is actually a shift of around about EUR 100 million from Asset Management to Life. Then the second factor is performance fees, as I explained from the private funds, it will not repeat itself in 2014. And the last point, we have, in our outlook, taken a more careful view on the dollar exchange rate, which you should also not forget. And that, otherwise, we believe that the underlying performance of our 2 asset managers is strong as it was in 2013.

Operator

Our next question today comes from Blair Stewart from Bank of America.

Blair Thomson Stewart
BofA Merrill Lynch, Research Division

I've got 3 questions. But just perhaps one clarification before I ask them. On your asset management guidance, have you made any assumptions at all for net flows? Or what are your expectations for net flows in the coming year? So my question -- first question was on Germany and France and the Life business. The value of new business has gone down. I suspect the answer to that is you're writing less capital-intensive business, so on a return-of-capital basis, it's attractive. But I don't see any noticeable change in your IRRs or your payback periods. So I just wonder if you can give us a flavor for what's going on there. The second question was related to cash flow. And I know you've done a lot of work to extract more cash from the Life businesses, and you've given a little bit of the guidance on that. But I wonder if you could talk about what initiatives, if any, are ongoing to try and improve the cash conversion and the cash remittances back to group. That would be very helpful. And the third question is a short one. Just if you'd give an update on the P&C business in Russia, which has been problematic. I just wonder if the hiccup we've seen in 2013 is genuinely a one off, or if that's going to persist.

Michael Diekmann
Chairman of Supervisory Board

Yes, maybe I'll start with the Russian issue, until my guys have decided its Wemmer or Max answering the last question there. I think Russia was a one off in the sense that we have sort of not fast enough retreated from underwriting motor, so we've taken a hit. I think it's not substantial in the sense of the group. I cannot rule out that we will have some afterburner for 2014 as well, which should be less than half of what we've seen in 2013. Dieter?

Dieter F. Wemmer
CFO & Member of Management Board

Yes, I will answer the last question. I think in France, we are still mainly selling the traditional capitalization -- capitally strong product, and that is -- has a lower new business margin than the year before as just interest rates are still going down. I think as we are changing our portfolio, and you can see this already a bit in the last quarter result of the new business margin, their funds is doing better. We are now moving our product portfolios stronger to Life and Health, in particular, the group health products and also increasing the share in unit-linked sale. But therefore, for the whole year, you cannot see any other effect. What was the other market? Germany. Well, Germany, I mentioned that we shifted slightly the policyholder/shareholder split. And that, of course, has also an impact on the new business value. But I think that is a very good investment in the brands and in the position, in the market, and therefore, that has to be seen more as a long-term investment and not as already creating the benefits in 2013. I think we are not specifically making a projection for the next flows for assets under management. I think we are committed to the operating profit. And you can expect that it will create, still, some hiccups during the year. But when you see how small the -- actually, the value of the assets under management movement was, in 2013, we would expect that the movements are at a similar level.

Blair Thomson Stewart
BofA Merrill Lynch, Research Division

Okay. And on capital extraction?

Dieter F. Wemmer
CFO & Member of Management Board

The capital extraction, I think we have several plans in place, which are very much focusing on the large P&C units in Life. We had some extra efforts from Germany and Italy in 2013. And I think we are -- with EUR 1.4 billion, that is a pretty good extraction from the Life segment, because that compares to a net income, so when we make around EUR 3 billion operating profit, deduct 1/3 of it for taxes. So out of EUR 2 billion net profit, EUR 1.4 billion is a 70% payout ratio, [indiscernible] when we will deliver this number. And so therefore, our Life units actually [indiscernible] very much to your taste.

Blair Thomson Stewart

BofA Merrill Lynch, Research Division

I was thinking more that as the older business runs off, it will start to release capital that's not used when you write new business.

Dieter F. Wemmer
CFO & Member of Management Board

Well, our older businesses, may I remind you, that we had 8.5% top line growth and very much in the old market.

Operator

Our next question today comes from Andrew Ritchie from Autonomous.

Andrew James Ritchie
Autonomous Research LLP

Three very short questions. First of all, on Asset Management again. The focus is very much on retail net outflows, I guess, in the second half of the year. Can you give us any sense as to what's going on, on the institutional side? I think bringing it right up to date, there has been quite a lot of turnover, not much just the high-profile turnover, but more individual-fund level. And what is that doing with respect to your position with consultants and institutional mandates? Maybe just give us some flavor for what's occurring there. And 2 very quick questions. Just looking at non-life, I just observed, Italy, which -- where you have been growing faster than the market, seemed to have shrunk a bit in Q4. And I appreciate pricing has come off a bit in Italy, but is there -- are you being sort of more cautious now in terms of your desire to increase market share there? And final question. I appreciate you're going to give us more detail on capital later in the year, but I mean, you provided an update of what you did in 2013. Is it still just a good working assumption to -- for 2014 to assume a similar kind of split? In other words, the 40-20-20-20 kind of split?

Michael Diekmann
Chairman of Supervisory Board

Let me start with the last question. I assume that -- no, let's take the payout ratio out, but that we do some investments in organic growth, that we do some external growth of charge [ph] about the -- talked about the Unipol [ph] exclusive agreement here. And that Max will rightly so ask for some risk capital would shift the asset side. I think that is a fair assumption. But I don't want to get you to the point where you say, "Okay, then I already know my capital management answer and I think we'll change that. We'll come backwards to payout ratio 40%." I don't want to indicate anything in that direction.

Andrew James Ritchie
Autonomous Research LLP

I guess it was just more -- it sounds like you feel the opportunities for organic/inorganic real asset are similar to what they were last year.

Michael Diekmann
Chairman of Supervisory Board

Absolutely. I think that's -- we talked about pricing. We talked about our initiatives on the Life side, so that's talking to the organic growth. And, I think, the opportunities, the closer we get to the Solvency II implementation, are going to increase.

Dieter F. Wemmer
CFO & Member of Management Board

Andrew, I think, that you have a question on the movement of asset management? For the whole year, we had an institutional EUR 6 billion net inflows. But in the last quarter, there were actually some outflows. I think we had 2 investors who moved in completely different asset classes, one went to real estate, one went to Far East equities. But otherwise, I think our institutional mandates were very stable. This is a positive for the whole year, so the net outflows, in total, were [indiscernible]. And the last quarter, the Italian P&C business reduced volume by close to 5%. I think there are 2 effects to consider. On one hand, we have this Re underwriting program running in commercial. So therefore, commercial had certainly lost or given up on some larger contracts, which were up for renewal in November, December. And the other point is the automatic renewal for motor Italy is non-existing anymore. That means we have slightly higher lapses in motor, and I think, the effect was in the first quarter. And there was a one-off change in the accounting practice, how we now account for motor renewal premium. Now we have to wait until we receive the money physically. I think that was the questions.

Operator

Our next question comes from Andrew Broadfield from Barclays.

Andrew Broadfield
Barclays PLC, Research Division

I have 3 questions, please. The first one, just on the equity of FX. Can you give us a sense of the overall bottom line impact do you think FX has had in 2013? If there's any guidance or thoughts on 2014, if there was [indiscernible] as it is? Second question, Solvency -- sort of to come back to Solvency. On the one hand -- I'm a bit confused because on the one hand you say, really not too worried about Solvency II. The quality is what the quality is, and it's fine and we're top of the pile. And, indeed, I think S&P marked you the highest on pretty much every category amongst all the global composites. Then why are we waiting for conclusion of Solvency II before you come out with your capital management plan, given it doesn't sound like it's a binding constraint? And then the final question, if I may. Just on the operating activities. All those things you outlined on Page D10 [ph] and -- which are fantastic. And I think, it will be helpful to understand 2 things: One, some evidence that you would point to on the success of these, I think, perhaps some financial metrics there; and also, how much of this is extending or developing a lead over peer groups, i.e., improving margins. And how much of this, do you think, is just the battle that needs to be done to stand still in a dynamic world?

Michael Diekmann
Chairman of Supervisory Board

Yes, and thanks for the question. The -- one of the answers that you can draw from this list here is actually on Page 11. It shows you how we are making growth against market and how we're improving combined ratios against market. So I understand that there are -- I mean, many more activities. But all is driven at getting us more competitive and more -- and growing. Now we have the FTE reduction programs, obviously, they translate into expense savings over time. I've talked about Allianz Re and the real program, which is important one for us from a capital steering [ph] point of view, but also from getting our purchasing power on the reinsurance side, really, in place. So maybe in the future, I will put a couple of numbers there or similars. What is getting what. Thanks for that question. And why are we waiting to cash out before we know exactly what the regulation is going to be? I can tell [ph] you other Supervisory Board for somebody who really understands what we are talking about. And I need approval not only from the Supervisory Board for capital management, but also from the annual shareholder meeting. And I will not go into the shareholder meeting, and say, "I have a good feeling in my tummy. And now this is how we're going to act on this." It's just not working like that.

Yes, I would have given you the same answer. I made some prediction that it is not the binding constraint. But, of course, you have, first, to go through the process. Now I think that, that's 2 different things. Now, on FX, you've asked. And, I think, Dieter has made a couple comments. We lost about EUR 2 billion in revenue, and 1 point [ph] minus the real number and EUR 400 million in operating profit. Half of that is translation, and the other one is related to investment. And on the net income side, there's $250 million that we lost through foreign exchange.

Operator

Our next question today comes from Atanasio Pantarrotas from CA Cheuvreux.

Atanasio Pantarrotas

CA Cheuvreux, Research Division

I have 2 questions left. One is your Life strategy in Germany. I would like to know if you will continue to provide a pretty much high crediting rate to boost your SUD [ph] the last -- November, December? And what -- and why you continue to this high remuneration [ph] policyholder strategy. On this question, a related small question regarding your early investment yield in your Life German book. If you can provide the data for 2013? And the final question is the outlook for the P&C business. I saw in the presentation that, for example, in Germany, you saw that in the first part of the year, the monthly renewal were still positive with a hardening trend. Are you feeling that these hardening trend is now fine, so with respect that in the next year, the pricing should be pretty much in line with this year? Or you think that there's room for additional hardening trend?

Maximilian Zimmerer
Former Member of Management Board

Okay. Then I'll start with the German Life business, overall. And if you think the crediting rate is effective, I'm happy with that, because it is also perhaps good for the policyholders. Why are we going for that in yield, because we really can afford it. And overall, the total yield on our reserves in Germany comes up to 5.3%. We have -- that means additional income also for additional buffers. It's a so-called [indiscernible], that means in addition to what we are paying to the policyholders, we build up additional reserves if the interest rates environment will stay on these low levels for the coming years. Overall, I think it's also serving us very well, if I think of the new business. Overall, our competition is getting weaker, and therefore, it serves us also in that respect very well if we remain well at this level. But that is not a guarantee that this will be the same crediting rate for 2014. I can tell -- 2015. I can tell you, that's the decision of the local management. And then we have to see what we expect on the interest side, on the capital markets, usually, because -- usually, we are acting what's accordingly to what we can afford, but also -- and we take into account the outlook of the interest rates.

Atanasio Pantarrotas
CA Cheuvreux, Research Division

Sorry, and your reinvestment yield in the Life German business in 2013?

Maximilian Zimmerer
Former Member of Management Board

Investment yield?

Dieter F. Wemmer
CFO & Member of Management Board

No, reinvestment yield.

Atanasio Pantarrotas
CA Cheuvreux, Research Division

Reinvestment yield, so I think that was 3.6% in 2012.

Michael Diekmann
Chairman of Supervisory Board

That was the Global Life reinvestment yield. And that was 3.2%.

Maximilian Zimmerer
Former Member of Management Board

3.7% rate. It's usually a little bit higher in Germany. You can say, on average it's 0.2% higher than for the global markets.

Michael Diekmann
Chairman of Supervisory Board

And we still see pricing flexibility in the German motor market beyond what we have taken 2013.

Dieter F. Wemmer
CFO & Member of Management Board

So we had a reasonable start into the year 2014 on this.

Operator

Our next question today comes from Paul De'Ath from RBC.

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

A couple of points. Actually, quite quick ones on Asset Management, please. Firstly, the performance stats for both PIMCO and AGI have come down a little bit in the fourth quarter -- and well, over '13 over '12 for AGI. And is there any specific reason for this? Plus, is it specific funds that are causing problems? And the whole thing [ph], do you feel has any bearing on whether or not the net flow position is going to improve anytime soon? And then second point was on Asset Management, is just a bit of clarification please on the performance fee side of things. Because obviously, we have seen quite volatile moves there following the private fund fee at -- in 2012. What's -- I mean, what's kind of a good rate to think of as sort an average there for the performance fees, going forward, notwithstanding that you might be doing some more of these private funds?

Dieter F. Wemmer
CFO & Member of Management Board

Okay. So I think the performance fees in AGI were a bit lower in Q4 compared to last year. I think there was some funds not performing as good as they did before. I think that was related to one U.S.-based equity fund. The performance fees, as a whole, are very much dominated by the one-off fees from PIMCO, and we would consider for 2013 a normal level, more, actually, in -- around EUR 300 million. And for the 2014 plan, I would hope this starts with a smaller number and if we outperform on it, the better [ph].

Operator

Our next question today comes from Farooq Hanif from Citi.

Farooq Hanif
Citigroup Inc, Research Division

I was quite surprised that you put the issue of sovereign risk having a capital charge in your presentation. I mean, I know it's on the table and being discussed, but always thought it was a very low probability, given inconsistency with other regimes in other industries. So I was wondering if you could just comment on, do you think there's been a material change in the attitude towards sovereign risk? And secondly -- so that was a comment sort of question. Second question, your EUR 3.3 billion target for the Life business is what I personally think stands out the most, because you've not -- sorry, that's your upper end target for Life business. The reason why that stands out is because you've -- I don't think over the last decade, you've actually achieved that. And clearly, materially away from that right now. I was wondering what assumptions would get you to EUR 3.3 billion in Life?

Michael Diekmann
Chairman of Supervisory Board

Maybe I can start, first, the sovereign charges, so I can -- take, Dieter, a little bit, can also take the Life part here. The sovereign charges are actually coming from discussions that we're having with BaFin, that's the German regulator. We've had similar discussions in Belgium with the regulator. So I think we can't really rule it out. I don't know whether we should wish for charges for the banks in sovereign exposures. Certainly, from a competitive point of view, yes, but I think the eruptions in the markets would be huge, and you probably can't face them at this point in time.

Farooq Hanif

Citigroup Inc, Research Division

I mean, I would be correct, I'm guessing, and you probably said this already, that the majority of the 20-point hit that you described is coming from that.

Dieter F. Wemmer
CFO & Member of Management Board

Well, that was, one of the cases. But look, I can't tell you the likelihood. I think there was -- the discussion came up in the last couple of months, and it was a discussion that it should affect all internal models and not suspend that [ph] model. Therefore, as a prudent insurer as we are, we put it on the list. What do you expect us to do? And we are certainly discussing here the uncertainties. And we will update you during the years what uncertainties are being closed and which ones are still open. And it will be a journey together, because the final approval process for the internal models is starting April 1, 2015. But for sure, we have to complete our calculations all before; so therefore, I assume during the year '14, that, that number gets more and more stable. But it will be -- some ups and downs, and we have only started the discussion, there is volatility in the number that you are not starting to try to find an explanation for each 2-point movement in the number. And as you see, we take it much more relaxed, because it's really not surprising concern. The question on the Life profit. Well, first, I said that we move up -- we move this other asset manager. So that is already a EUR 100 million reallocation between Asset Management and Life. Then we had short of EUR 150 million in Korea, and we are not assuming that this will repeat. Actually, Korea, in itself, should improve over 2013, otherwise, we wouldn't do a restructuring. And also we assume that Germany has very good chances to deliver a higher profit in 2014 than '13. And there are already 3 very concrete examples showing you that our numbers are not only doing, but they also have a real basis.

Farooq Hanif
Citigroup Inc, Research Division

Sorry to labor the point, but just on the EUR 3.3 billion, or the upper end of your target, so obviously, we have the numbers for the other parts. But -- so what is it in Germany? Is it lower reserving for interest rates? I mean, what is it that really drives higher IFRS profit to get to your bull case?

Dieter F. Wemmer
CFO & Member of Management Board

Well, we had one-off currency losses in the numbers and also the shift policyholder-shareholder split. So therefore, I think it's -- that's very much based on this assumption. And also with the great inflow we had in 2013, actually, we have also a higher asset base.

Operator

Our next question today comes from Marc Thiele from Mediobanca.

Marc Thiele
Mediobanca - Banca di credito finanziario S.p.A., Research Division

My first question is on P&C insurance. How do you expect the earnings to develop beyond 2014, given that price increases have already started to slow in the fourth quarter? Secondly, on emerging markets, Dieter said, in Turkey, the high interest rates offset lower currency, although this is probably slowing down GDP growth and insurance demand. How do you feel about M&A and capital redeployment in emerging markets versus mature markets in general terms? Michael mentioned being smart, but maybe you can share more details, thoughts with us. And thirdly, can you quantify how you would think about the third country equivalence, and how this would impact economic solvency? Did you make any specific allowance for the Global Systematically Important Insurers, and how much capital do you think this would require at the end?

Michael Diekmann
Chairman of Supervisory Board

Maybe I would start with the M&A side. I mean, we're talking about this, I think, consistently, all the time. We say it would be great to do emerging markets with a little bit of a question mark about pricing levels and also, lately, and that's just given the presentation to the Geneva Association on that on profitability levels. So I think there's a lure into higher gross numbers with a lot of risk also on currency movements and political issues. Now it's obviously a little crowded in that market with very little supply on the other hand. But don't get me wrong, if there's something that would be of interest, we would be the first ones to look at it. We just think it's more practical to say we have some markets where we can do a strategic addition that is easily integrated or something where we can use our scale. And that's basically the markets right now. We've seen France. We've seen Belgium. Now it's Italy, where there is pressure on other providers and investors to dispose. And I think this is not a bad strategy at all. And by the way, Turkey, I would call an emerging market in this respect. I mean, with 37% of organic growth last year, I think that proves the point.

Dieter F. Wemmer
CFO & Member of Management Board

Yes. I think, actually, on -- the pricing quote in P&C is, in the end, the question of what is the mixture, and I think you are very much referring to the U.S., which is, for us, a good market, where our global Corporate business is very successfully operating for years and where we have the turnaround case for Fireman's Fund. So I think we are on track with our turnaround case, and I think that is still helping us in the year of '14 and '15. And I think, for Germany and France, we have spoken before about the pricing environment. On Solvency II, we are currently not assuming any equivalence with other countries. And based on our portfolio, it would also not have a huge impact. As our U.S. portfolio is dominated by fixed index annuities and not the A [ph] business, actually, the difference in the 2 calculation is not so much. Can we make any assumption on what systemic importance would mean in capital? No, absolutely not. That discussion is in a very, very early phase, and many ideas are floating around. And therefore, it's impossible to make any manifestations on that at this point. But it just -- it seems that the capital add-ons are for the nontraditional non-insurance activities. Our banking operations are very tiny, but it might -- variable annuity is, at the moment, on this list of nontraditional and a couple of other small activities for us. So therefore, I can't say whether it would be a number which would be significant for the group.

Marc Thiele
Mediobanca - Banca di credito finanziario S.p.A., Research Division

But then, you haven't included that in the sort of guidance of that 20% to 30% Bridgepoint restatement. That would come...

Dieter F. Wemmer
CFO & Member of Management Board

No, because it is a completely new benchmark. It will be independent of Solvency II. It might be that the new requirement is ending up at 80% of Solvency II, or it might end up at 120% of Solvency II. I have no idea.

Operator

Our next question comes from Thomas Seidl from Bernstein.

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

Three questions, starting with PIMCO, quite some change of management. I wonder what you would say. We could read into changes in strategy from these management changes. Is it that PIMCO is now, again, more focusing on the U.S. side, more international, in particular? Is there a dedicated strategy to grow into equities more successfully than in the past? Secondly, on the investment side, I think you're showing the higher yield you have on real assets. I wonder how the issues you have seen now in the example of the gas pipeline, it basically reduces the excitement about this asset class. And finally, you mentioned the FTE reduction, cost reduction, is there any number you would commit to for 2014? How much we are going to expect in terms of lower expenses variance [ph]?

Michael Diekmann
Chairman of Supervisory Board

Then I would like to start with PIMCO. Yes, I think the management changes are reflecting a deeper diversification in asset classes. And we, for the first time now, have a call deputy or a deputy in -- for the asset class of equities, a new hire. But I think, overall, it's good to broaden the attention of the investment management side, and you've seen some great names there. But also, the thing that's significant that we've timely made the split between the investment side and the management side because the company has grown to a degree that I think that was good and necessary. And also, it's reflecting a regional diversification because it may look American at the first view, but we have a French lady, we have a U.K. guy, who's taking care of the Asian investments. We have Doug Hodge on top, who was responsible for the Asian bit up [ph]. So I think, overall, yes, it's reflecting that diversity of PIMCO much better, and it also gives us better diversification when it comes to management responsibilities.

Maximilian Zimmerer
Former Member of Management Board

Okay. You asked about our gas pipeline. You -- I think you see our Gassled, our investments here. Overall, we invest in infrastructure, not only if we have regulated assets, but also then in other fields. As an example, Net4Gas is an example. Then we have long-term contracts with Gazprom. That means it is not regulated. Usually, you should think that your regulated assets are more secure. Unfortunately, that has proven wrong in Norway, but let's see. We are in discussions, as you now, and also suing the government. Therefore, let's see what is the outcome overall. In the EU and also in Germany, EU, I can mention the green book for long-term investments, and that was also stated there that we need this kind of security as a long-term investor. Otherwise, the yields will go up, and that makes it more difficult then for the countries to finance their infrastructure. Overall, what is our learning out of that? I think we have to diversify. We should not put all the eggs into one basket. That's important overall. But we should also diversify and [indiscernible] wise, I think that is very important for infrastructure.

Michael Diekmann
Chairman of Supervisory Board

Okay. The -- you asked us for the restructuring charges, I can only give you, at this point in time, the FTE numbers. So there's the Allianz banking activity. It was 400 FTE. Korea was 250. And Italy and Benelux was 100 each. And my assumption, at this point in time, is that these people would leave early in 2014. So then we would get the full benefit. But that, obviously, is now a question of implementation because the restructuring charges, at least for Benelux and Italy, have only been taken -- and Korea, in December of 2013.

Dieter F. Wemmer
CFO & Member of Management Board

And on top comes the data center consolidation, but we don't have a number on this one. That is more an infrastructure cost saving.

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

Okay. It sounds like it's more coming over the next years rather than '14.

Michael Diekmann
Chairman of Supervisory Board

The data consolidation? Definitely, yes.

Dieter F. Wemmer
CFO & Member of Management Board

Data center consolidation is split over '14, '15, '16, whereas the numbers Michael mentioned before are '14.

Operator

Our next question today comes from Nick Holmes from Societe Generale.

Nick Holmes
Societe Generale Cross Asset Research

Just a couple of questions. First one is coming back on Solvency II, just wondered, do you have a sense of where your 180% Solvency II indication that you've given might possibly come out in terms of credit ratings? Bit of an unfair question risk given that you're not a credit rating agency. But I mean, presumably, 180% would equal a AA rating. Presumably, you would agree with that. But any idea of sort of where the cutoff might be? And then second question is I hope a little bit easier to answer, which is on German Life, wondered whether you can tell us what addition you made to the ZZR in 2013, and if this was still fully funded by the RfB. And if so, how much buffer do you have with the RfB before you actually need to make shareholder contributions?

Michael Diekmann
Chairman of Supervisory Board

Okay. So let's start with ZZR in Germany. It was, in 2013, a EUR 2.4 billion contribution because we used, as the reference rate, 3.41%. With the current interest rate movements, it is probably increasing to EUR 3 billion in the year '14, and I think we can fully finance it out of the existing buffer. We are not concerned about it. So at the moment, when we come to the rating and the connection to Solvency II, Standard & Poor's has recognized our internal model, and as well as our excellent risk management activities. In the current rating, they used 85% of the Standard & Poor's standard spreadsheet and 15% of our internal model. I would assume when Solvency II comes really in place and as we're required a solvency calculation, Standard & Poor's might even move to a bigger recognition of the Solvency II model, and that would then actually probably also under rating considerations improve our position and not worsening it. What you wanted to hear.

Nick Holmes
Societe Generale Cross Asset Research

Okay. Yes. No. That's very interesting. So any items that you would say S&P will look more favorably on within Solvency II? What items might actually change their credit assessment?

Michael Diekmann
Chairman of Supervisory Board

Yes. It's simple, when it is an approved model by the regulator, it has more gravitas than it has as long as it is -- that's our own internal model.

Nick Holmes
Societe Generale Cross Asset Research

Yes, yes, I follow that. Yes.

Michael Diekmann
Chairman of Supervisory Board

That is straightforward.

Nick Holmes
Societe Generale Cross Asset Research

Okay. Can I just quickly follow up on the RfB and the ZZR? Max, are you saying that this RfB is so large that there is no near-term requirement to fund the ZZR at all? I mean, you said, clearly, for 2014, you're very happy, but can we say the same going out for a few more years after that?

Maximilian Zimmerer
Former Member of Management Board

To say it a little bit differently, our ambition is to finance that with the current income and not with the RfB because usually we should not take money from the RfB to finance the ZZR. That usually -- that is referring to the high investment income we still have. And I'll explain to you, the investment income right now is much higher overall than what we need for the crediting rate. And that is also because we are realizing hidden reserves from the asset side. And usually, that is also to finance the ZZR. We would not like to shrink the RfB to finance the ZZR.

Nick Holmes
Societe Generale Cross Asset Research

Okay. So it's really the function of the realization of gains?

Maximilian Zimmerer
Former Member of Management Board

Yes, and the other investment income we have right now.

Operator

Our next question comes from Michael Haid from MainFirst Bank.

Michael Hermann Haid
MainFirst Bank AG, Research Division

Two questions. First on German Life 2013, I would like to get a better understanding of what is getting -- or what is going on in terms of breakdown of new business. Could you give us a breakdown on how much is corporate Life versus individual Life, how much is the capitalization product? And also, can you give us an idea how much is still from the traditional Life product for new business, and how much from the new product, Perspektive? And the second question, very simple, on Asset Management, you mentioned that the gross margin for the fourth quarter being 45.5 basis points higher than the average for 2013. Is it fair to assume for 2014 that the 45.5% would be a run rate?

Michael Diekmann
Chairman of Supervisory Board

Okay, Michael. So let's start with Asset Management, that is easy. That was very much the reason why I highlighted the Q4 number because I think that is a good starting point for the year 2014. On Germany, Life is a new business mix. Well, our growth in this year was very much linked to single premium product. And I think the new business -- I think the best way to describe it, it's half and half between retail and group business. And within the retail business, our new product innovation, which is called IndexSelect, which is a hybrid product, almost, I would say, a German adoption of the fixed index annuity business from the U.S. With our Perspektive, which is a new product, which has lower guarantees and more upside for the customer, this new product innovation makes 43%, 44% of the retail sales. And so that's the traditional annuity product.

Michael Hermann Haid
MainFirst Bank AG, Research Division

And the capitalization product?

Maximilian Zimmerer
Former Member of Management Board

29% of the premium business.

Michael Hermann Haid
MainFirst Bank AG, Research Division

Yes, premium business. And here, the margin is very low, obviously, I guess.

Maximilian Zimmerer
Former Member of Management Board

No, not really. If you think of the short term one, we pay only an interest of 1.1% on that, but we usually invest it long term.

Michael Diekmann
Chairman of Supervisory Board

I think it fits very well in our duration management and optimization. At the current level we are writing this product, that is a nice add-on from a profit point of view.

Operator

Our next question comes from Frank Kopfinger from Commerzbank.

Frank Kopfinger
Commerzbank AG, Research Division

I have two questions as well, and my first question is on Asset Management on -- especially on Allianz Global Investors. I thought that in Q4, your cost income ratio was 76.6% there. Could you comment on the drivers of this development and also comment on whether you still stick to your 65%...

Michael Diekmann
Chairman of Supervisory Board

Sorry. I couldn't quickly catch the question, could you please repeat it?

Frank Kopfinger
Commerzbank AG, Research Division

Yes, sure. Sorry. I realize that within your Allianz Global Investors segment, you had a cost income ratio of 76.6%. And could you comment on the drivers behind this development, and also comment on how this looks in relation to your 65% target overall? And the second question is on your CEE operations. There, I thought that you had a combined ratio of 99.5% for the full year. Could you comment there on the drivers behind this, especially in terms of which were the drivers for this deterioration, and what your expectations would be going forward?

Michael Diekmann
Chairman of Supervisory Board

I think we addressed the CEE, Eastern Europe combined ratio in one of the previous questions. We had an extraordinary negative results in Russia where we had to book a very bad combined ratio on the motor side. That's really the only driver of this, say, worsening of our operating profit there. And I have also said that for the next year, we will at least halve that negative impact on operating profit, so we'll return back to, I think, good numbers.

Dieter F. Wemmer
CFO & Member of Management Board

I think, in Allianz Global Investors, we are probably not yet allocating really the bonuses evenly over the quarters, so therefore, Q4 has always more of the bonus part. But in the previous quarter, we had a provision where we lead on the restructuring programs we had before. So therefore, the comparison Q3 to Q4 is skewed by the 2 things. And also, as I said, performance fees were a bit lower this year than the year before.

Michael Diekmann
Chairman of Supervisory Board

And maybe to come back to this Russian issue, just to give a little light on that. That was driven by a change in legislation when it comes to questions like MTPL and bodily injury.

Operator

We have a follow-up question now from Michael Huttner.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

Two questions. On the reinsurance, the reinsurance costs less. Is there -- what's the amount of benefit or the figure or even the feeling for which way it's going? And then a very detailed and probably a question you probably would say you think is irrelevant, what's the exposure to Turkey in terms of balance sheets?

Michael Diekmann
Chairman of Supervisory Board

Okay, Michael. The reinsurance for 2014, I can't tell you how much we will save in premium because we are not renewing all programs on January 1. But we have, of course, scheduled the renewals during the whole year, and that has been more a correction for the following quarters. But maybe what I should have said before actually is when our -- while our gross written premium did shrink in nominal numbers by 0.7%, our net earned premium was actually up by 0.8%, so quite -- already some progress in retaining more of the business and doing less reinsurance, and that's was during 2013. And as we have discussed in the third quarter, that trend will continue in the -- in 2014 and '15. And in Turkey, our balance sheet exposure, well, that is the acquisition cost of Yapi Kredi plus the original investment in our old business, that is roughly some EUR 200 million, EUR 300 million on top. And the change in exchange rate is always booked in OCI. And when I said that we lost in net equity EUR 1.2 billion due to foreign currency, of course, the Turkish investments for Yapi Kredi and the original one are both included in this number of EUR 1.2 billion.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

And just in terms of bonus, do you have any sort -- government...

Michael Diekmann
Chairman of Supervisory Board

You mean bonds held in other subsidiaries? It's actually -- well, that is a very specific question, and I'm not sure that...

Maximilian Zimmerer
Former Member of Management Board

It is between 0 and near to 0, okay?

Oliver Schmidt
Head of Investor Relations

All right. Thank you, [German]. It is 27 minutes past 4, so we have time to take one last question, please.

Operator

We actually only have one further question in the queue now, and that is from Vinit Malhotra from Goldman Sachs.

Vinit Malhotra
Goldman Sachs Group Inc., Research Division

Just -- I wanted to ask on the emerging market volatility we saw in earlier last month. And obviously, we've heard it with reference to both the German Life emerging market exposure, a little bit there, then also on the noncore asset -- in the Asset Management PIMCO side, where Dieter, we've heard you talk about emerging market volatility. Also, fourth quarter wasn't a very good for noncore. Could you just give us some more comfort on how the last month's volatility would have impacted your thinking in this outlook? So that's the first question. Second question is just on interest rate risks. Just a quick observation that the economic solvency sensitivity 200 basis points move up has been falling through the year. In 2Q, it was 20 points. In 3Q, it was 12. In 4Q, it was 8. Is it something that you're consciously putting in place in terms of some hedges or -- just a quick comment, please.

Michael Diekmann
Chairman of Supervisory Board

Vinit, you have lost me a little bit on your emerging market question. But maybe, Max, if you want to take this? Yes?

Maximilian Zimmerer
Former Member of Management Board

Yes. I think our overall exposure in emerging markets, if our single [ph] bonds is now EUR 14 billion, that is what we hold in Europe portfolios, EUR 14 billion, is in our office, a little bit more than EUR 6 billion in local currency. And the loss on that and that is the impact on the operating profit, EUR 128 million last year. Overall, we've reduced the currency risk from there. And as you can see from the market development in January, mainly, there were losses on the currency side. The countries who had a current deficit -- a country deficit that means Brazil, as an example, and Turkey, overall, there. And we do not have too much, only to say that, overall, what you have to take into account, that still the interest rates are really high. And in average for the emerging market bonds, that includes also the emerging market bonds that has been issued in euro or U.S. dollar in average, they have come up to 6.2% in comparison to what you get usually in euro terms, that is from 1% to [ph] 2%. And therefore, still attractive, but we also have to take into account the higher volatility, that's really true. Therefore, we would not like to go now for more exposure into emerging markets and have drove us, and that I think very solidly.

Vinit Malhotra
Goldman Sachs Group Inc., Research Division

Yes. I was just asking from the PIMCO noncore products because we've heard that mentioned in the context earlier in the entry queue [ph], I think.

Dieter F. Wemmer
CFO & Member of Management Board

But I did not linger to emerging market, therefore, you lost me [indiscernible]. So therefore, I could not combine...

Michael Diekmann
Chairman of Supervisory Board

I was the one to tell -- I was mentioning that in the new management structure, we have 1 person, and that's Mr. Bosse out of U.K., who is dealing with emerging market debt, and we have Doug, who has been running the Asian business for PIMCO. That was not a suggestion that we are increasing there.

Dieter F. Wemmer
CFO & Member of Management Board

And it is not linked to PIMCO [ph].

Michael Diekmann
Chairman of Supervisory Board

Therefore, I got a bit confused. So I think when you look at how our duration gap in the Life segment has moved during 2013, when it gets smaller, the interest rate sensitivity is getting lower, that is the reason why we are showing it as an indicator. So the 2 KPIs, I think, are matching very nicely here.

Oliver Schmidt
Head of Investor Relations

All right. Thanks, everybody, for joining the call. Yes. We say goodbye to everybody and wish you a very pleasant morning and afternoon. Goodbye.

Michael Diekmann
Chairman of Supervisory Board

Thank you.

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