S&P Capital IQ

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Allianz SE DB:ALV

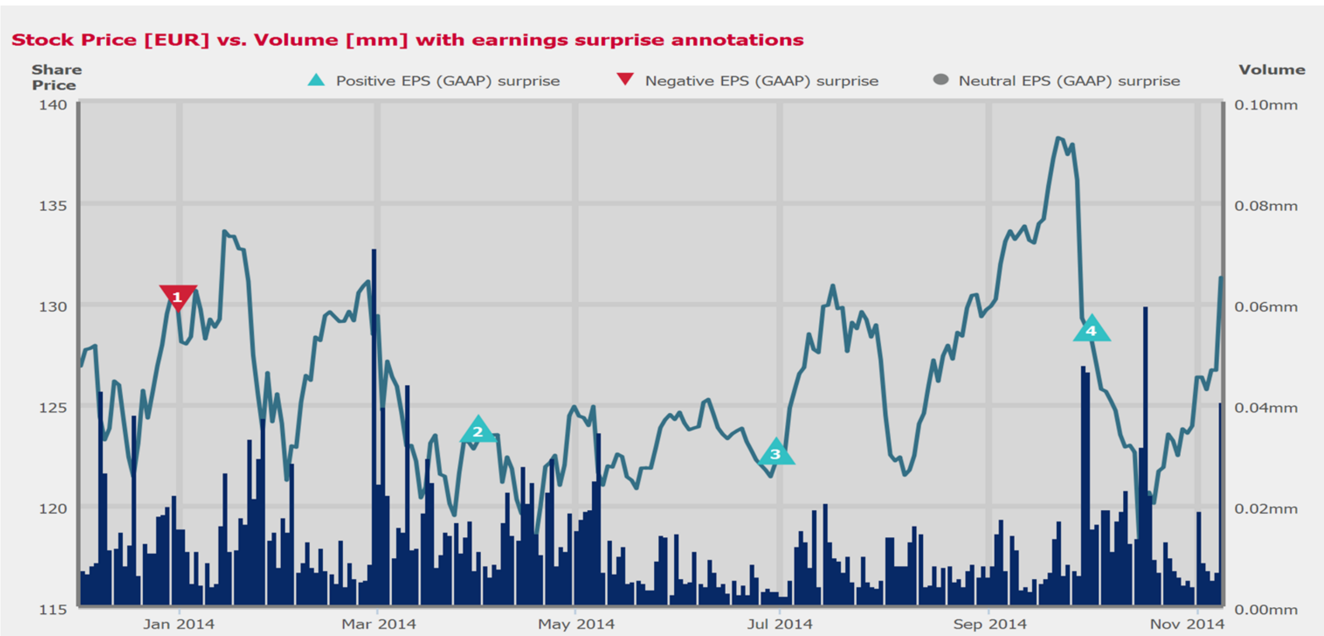
FY 2014 Earnings Call Transcripts

Thursday, February 26, 2015 1:30 PM GMT

S&P Capital IQ Estimates

	-FQ4 2014-			-FY 2014-		
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	ACTUAL	SURPRISE
EPS (GAAP)	3.22	2.67	(17.08 %)	14.08	13.64	(3.12 %)
Revenue (mm)	29157.00	30100.00	3.23	121498.85	122300.00	0.66

Currency: EUR
Consensus as of Feb-26-2015 9:53 AM GMT



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Presentation

Operator

Good day, ladies and gentlemen, and welcome to the Allianz conference call on the financial results for 2014. For your information, this conference is being recorded.

At this time, I'd 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, Suzana. Yes, good afternoon from my side as well, and welcome to our conference call about the results of fiscal 2014. We will follow the same procedure as last year. Dieter will kick it off with the key numbers, then Max will talk about our assessment, and last but not least, Michael will wrap it up and comment on the outlook for 2015.

We have scheduled 2 hours for the call. In case it is not sufficient to have your questions, please come and meet us at our analyst meetings next week, one in Frankfurt, one in London and one in Paris. That's all from my side so far, and with that, I hand over to Dieter.

Dieter F. Wemmer
CFO & Member of Management Board

Okay. So good morning for the callers from the States and good afternoon for the European callers. Let me start with the financial highlights.

So on Page 3 of the presentation, Q4 numbers. The revenue is up 12%, so we kept our double-digit internal growth rate. Group operating profit is short of EUR 2.3 billion. We had a number of additional smaller one-offs we faced as headwinds in the fourth quarter. We booked an operating loss for Brazil of EUR 150 million; Russia, EUR 40 million. We had a new regulatory fine in France for very old cases from the time where we still did not own the company, and we booked additional premium deficiency reserve in Korea, but also, we had a positive one-off in the Corporate segment. So all in all, it's about EUR 200 million, which I will consider as one-off in the Q4. That leads -- this then leads to a 96.5 combined ratio in the fourth quarter, where our Life and Health business continues to grow very strongly. New business margin is doing well, and I will go into more detail of the Asset Management business, as usually, later in the presentation.

When we go to Page 5 and look at the total results, EUR 10.4 billion, just short of the maximum outlook point of EUR 10.5 billion. P&C is slightly up. Life and Health had a really great year, and Asset Management, following the outflows and the non-repetition of the one-off performance fees, was down, and Corporate segment is slightly up.

When we go to the overall shareholders' equity development on Page 7. Shareholders' equity, a record high, short of EUR 61 billion, is driven by retained earnings, increase in unrealized gains. Also, for the benefit of the shareholders, Max will tell you how the cost unrealized gains developed in total, and our year-end number includes EUR 1.6 billion net of taxes, additional pension liabilities for our own pensions, which -- where we reduced the discount rates from 3.5% to 2%.

Conglomerate solvency, which is still only measuring the revenues, has stayed fairly flat over the year. The Solvency II capitalization stayed also almost flat over the year. Actually, when you include that we have now in the year, in '14 number, higher dividend included than in the year before, which makes 2 percentage points and a slightly lower leverage, actually is the number looks almost flat over the year, although it was a year with many volatilities built in.

Let me start first with the external market movement. The 10-year point of the euro swap curve end of 2013 was 200 basis points. That swaps to 80 basis points a year later. So a swap of 60% in 1 year parallel to volatility in the fixed income doubled. So actually, it was a year which -- where we did stress the whole system calculation and also the risk-bearing capability, but we managed this parallel with actually increasing our risk-taking substantially. When you will look at Max figures, you will see that our investment portfolio is more than EUR 74 billion up. So a total change that is a consequence of our great growth effort in the Life business. So we are taking quite a lot of additional risks on both.

But there are also many model changes as we are not disclosing to you a stable standard economic model. We are, as we said in the previous quarter, moving gradually forward to the Solvency II model, which we are going to file in the second quarter this year. So we have already used the appropriate discount rate in the calculation, which makes, at year-end, the 80 basis points I mentioned, minus 10 basis points credit shift, plus 13 basis points volatility adjuster, to some 83 basis points for the 10-year euro point.

So we have seen not only the parallel shift I have mentioned. Actually, the yield curve over the year flattened and in particular in Q4, and the doubling of the vola is also very much a Q4 event. So we when you just look at the number between end of September to end of December, you can say flattening yield curve about 7 points, parallel shift, 8 points; doubling vola, 9 points; and we changed in the fourth quarter and moved to U.S. equivalents.

I told you in the past that we were agnostic to it because the number was pretty much the same, whether we do equivalent internal model. However, at a 2% interest rate for the 10-year treasury in the U.S., there is a benefit for you as shareholders, and hence, for us to do it, and also it makes our numbers, I think, more comparable to the peers who have U.S. subsidiaries because we were the only one staying away from it. As we are also the only one who has so far a charge for government bonds into the calculation, I think this will maybe start limiting the differences also through our peers a little bit.

So let's move to the more exciting figure that is actually the growth in the P&C segment. Fourth quarter added a 10% growth, which is, I think, for many quarters, first in particular a double-digit growth in P&C. And the growth is actually carried by quite a number of entities starting with the U.K., which continues to create numbers, but also, AGCS had a very strong year-end performance.

In total, we grew in the year 3% flat number over the 12 months. That is our midterm strategic targets to achieve this, but so far we missed it almost a little bit. Actually, that number includes even that we are shrinking in Russia substantially, as we explained, that we have the negative premium development in Brazil and also in the U.S. When I take the 3% out, 4.5% is the growth rate for all our Anglo markets and other core markets, which is a fantastic number.

It's, overall, with all the pluses and minuses, are very much volume-driven. So therefore, we could also add 2 million customers over the year. The price effect across all markets is leveling out.

When you move now to the operating profit of the entity, over the whole year, 94.3%, absolutely flat underwriting margin. So you still see that underwriting added EUR 80 million to the profit line. Additionally, that is equivalent to a net on premium of 4.1%, and that is the driver of our additional underwriting profit.

Well, you could say, at a first glance, you had a 2 percentage points better catastrophe ratio, so where is the money? I think that the cat ratio and weather-related events was maybe 1 percentage point better. We had a lot of midsize events over the year, but also in the fourth quarter, so our accident year loss ratio worsened. And actually, when you adjust the attritional accident year loss ratio comparison, it is 1.2% off we had over the year, but in particular, in Q4, some more large losses. So that makes the 0.3% and the 0.9% for the other weather-related events I mentioned already.

So the one-off ratio is slightly lower than last year. The positive development of the majority of the countries unchanged to last year. But in 2014, we had to strengthen reserve in Brazil, Russia and the U.S. U.S. was already at the half year number. So therefore, when I look just at countries with positive one-off, it is more or less at the same level as the year before. Expense ratio, pretty much flat. We had additional one-off costs from the Unipol transaction, and we had also additional expense loss with the write-down of premiums in Brazil in Q4.

So moving to our operational profits slide for the P&C business and also the individual combined ratios of the major OEs. Well, obviously, Germany is doubling operating profits. As a market, it's holding up very well, and AGCS is another big plus, and the negative plan growth I have already mentioned. And I will explain in more detail on the next page where we show the portfolio overview.

I think still, the majority of our units, 2/3 of the constant premium, below 95%, 27%, and the catastrophe, just above 95% with stronger growth, and 9% of the portfolio of the bond, above 100%. The Fireman's Fund has 120%; Russia, 140%; Brazil, 125% for the whole year.

So I think you know the action item, Fireman's Fund has been -- the personal lines business has been sold to ACE, where the transaction is expected to close April 1. The commercial business of around $1.5 billion of premium going to be integrated with AGCS U.S. Actually, the integration process started with the beginning of the year. In Russia, we are downscaling the retail operation substantially, and that is well advancing. That means that retail funds premium for 2015 will be substantially smaller than last year, and the focus is on Corporate business, and we are also continuing the Health business and Retail.

Brazil is actually a combination of IT platform issues which are creating -- did create some costs around -- I think underlying business issues emanating from business [indiscernible] in the second half of 2013, where we did -- after we understood the situation much clearer, a lot of cleaning up in the fourth quarter. Cleaning up in the sense that we have now focused our best understanding of the situation, and all the turnaround steps are being initiated.

Page 17 on P&C's similar income. I think that Max will comment on it. I think that the highlight I would like to mention is that it's stable over the year; actually, EUR 17 million more than the year before. It's a tremendous, stable investment income.

Now let's move to the Life and Health segment. The growth story of the previous 3 quarters continued for the full fourth quarter. So the driver of the growth is the German Life business, the U.S. and Italy, Germany. Our market share in new business is obviously around 1/3 of the market. In the U.S., the great sale success of the fixed-indexed annuity business continues. So actually, when you look at the U.S., fixed-indexed annuities are up by EUR 5.1 billion, where actually, our VA premium is down by EUR 650 million. So it's really all the fixed-indexed annuity. And in Italy, the growth number is 2/3 unit-linked and 1/3 non-unit-linked.

In Asia-Pacific, the growth is clearly supported by our HSBC distribution arrangement. And in country terms, it's mainly Taiwan, but also our local sales activities in Korea have a strong positive.

When we move then to the profitability of the Life business, EUR 3.3 billion operating profit at the upper end of our expected range for the year. Please remember that we moved about EUR 110 million operating profit from the smaller Asset Management units into the Life and Health segment. It's our pension provides -- pension companies in Poland, Spain, et cetera, and so that is a change in the allocation.

And what drives the additional profit? Well, that is actually clearly the higher investment margin. And here, we have, besides good underlying investment results, also one-offs that is recovery of emerging market currency against the euro. That was a fairly sizable negative in 2013, and now it is a positive in '14. So the swing is double. And also we have gained on the interest rates derivatives protecting us against falling interest rates in Q4. So that is also a positive number.

In total, I would say, maybe in the Life business, there is some EUR 100 million to EUR 150 million of these individual one-offs. The increase in expense is all driven by additional expenses for acquisition of the new business. It's obvious with the high-volume increase and that offset on the stronger capitalization of DAC.

You wonder why our technical margin is down when we say we want to buy core biometric risk. Well, that is the change in Germany where we are now only giving -- or allowed to take 25% for the shareholder on technical result and 75% goes to the policyholder. That reduction of EUR 99 million, hence in the German business, is very much being offset on the investment margin side. That means when you add both numbers together, it's still a total return calculation what we paid for our policyholder as profit. The number is pretty much 0.

So moving to the new business value. New business value, up 45%, mainly driven by volume growth, but also new business margin is actually at 2.4%. The obvious question is, well, in this interest rate environment, what would you do as a business again in 2015? We have tried to calculate it with current yields, and then it would -- the business margin would be at 1.7% to 1.8% if you take exactly the same mix. But you can be assured that we work on our mix in 2015, but don't take it as a forecast for 2015.

So how did the yields work? And actually, what are the guarantees? I think that Max has -- in his presentation, it's the same slide, so I would refrain from here on making further comments. And let me directly move to the Asset Management business.

So I'm now on Page 27 of the presentation. At first glance, third-party AUM stayed very stable, just EUR 12 billion down from EUR 1,329 billion to EUR 1,313 billion. But behind the stable numbers are big movements: the outflows at PIMCO of EUR 236 billion; inflows at Allianz Global Investors of EUR 10 billion, and this is being -- the outflows then are being compensated by 11% foreign currency impact and the market impact in the falling yield environment, hence, revising equity markets of 4.2%.

The FX impact is actually in the numbers very much only visible on the balance sheet numbers. I should have mentioned it right in the beginning of my presentation. The EUR 10.4 billion of operating profit includes roughly a EUR 40 million net impact of all the FX changes during the year '14 compared to '13 in operating profits, where here, as balance sheet items are being calculated over the year-end spot rates, you see a much bigger impact of the euro-to-dollar conversion.

And therefore, that is the basis for our earnings in 2015, so very important to understand for the outlook. However, when we look at the dynamics of the 2013 results, first, as a revenue of the Asset Management business on Page 29, PIMCO declined by 12.5%; Allianz Global Investors, 8% up, it was a great result. That did not stop that we have, overall, an 8.6% decline in revenues.

And actually, the margin at Allianz Global Investors dropped for 2 reasons. We included some advisory business, which added some AUM but no fees. And then also the mix with more institutional business also weakened the margin slightly.

PIMCO, the margin drop of 1 basis point, it's very much explained by that the outflows that you can see here were more on the retail space and on the institutional space, and it's all happened in the U.S. Actually, Europe and Asia are fairly stable with PIMCO customers.

If you now translate those information to the operating profit development at Asset Management, though it dropped 15% to EUR 2.6 billion, the 2 drivers are the outflows with the margin compression I just explained, but also the one-off performance fees of the year 2013.

Actually, when you take out the one-off performance fees from 2013, the recurring performance fees also at PIMCO were actually higher in absolute numbers than in 2013, which, I think, is great news because the quality of an asset manager and his perception with the customers is driven by its investment performance. Hence, investment performance continues to stay high, and I think we're really free of any damages with the management transition which created so much media attention. So therefore, the basis for 2015 is fully indexed.

When we discuss the outlook, we will also talk about the one-off performance fees at PIMCO we expect at year-end 2015, but let me first complete the P&L of the Asset Management sector. We have, certainly, a reduction in expenses based on the profit-sharing at PIMCO, the 70-30 formula. However, our expenses did not drop parallel with the reduced revenues for several reasons. I think most of the operating expenses, which are really transactional, are variable, but staff costs and numbers are not moving as fast as we have seen the move in the fourth quarter. Plus, as we explained already in the Q3 results, we actually have implemented a special sort of pension program, which was at the first booking in 2000 -- in the fourth quarter, and we added substantial marketing budget for the fourth quarter and really raising the presence of PIMCO in many medias that it then leads to a cost-to-income ratio of 61% for PIMCO and for the fourth quarter.

So overall, I think in the context of transition here for our Asset Management business, the total result of EUR 2.6 billion is holding up very well and is still in line with our expectation.

So when we then go to the Corporate segment, I think the big swing is the banking segment. But that grows over the restructuring costs in 2013 for Allianz Bank Deutschland, the retail bank which we closed, almost EUR 100 million of restructuring costs and precisely EUR 8 million, so that was the negative one-off. And also we have, through our German regional bank called OLB, we have a small shipping portfolio where we have, in the last 3 years, put up loss loan provisions for the shipping portfolio. There were no -- there was no need to increase reserves in 2014; hence, you see also better operating results.

And the Holding & Treasury segment has a number of one-offs. There's, on one hand, higher admin costs. And also, we had from the IT restructuring we had in 2013 of the lease of our restructuring provision, but also, we changed our company pension in Germany, which created EUR 160 million of positive impact in 2014.

So we can now come to the total summary from operating profit to net income. EUR 10.4 billion, 3% up compared to the year before. The nonoperating item was minus EUR 1.55 billion, look unusually high, but there is a special tax treatment I will explain in a moment. Actually, our harvesting was lower than last year and almost EUR 150 million lower in the secure equity and debt. That means we are not churning, in the P&C segment, our future. Impairments are lower, as we had almost none -- no more sizable impairments.

What is shown under the income from financial assets and liabilities carried at fair value, that includes some cash flow hedges in France but also the overlay hedge which we do for our U.S. Life business to protect our local statutory capital that cost us EUR 140 million.

And now let me explain the tax rate. We are showing here a tax rate of 32%. That is the tax rate paid by the shareholder, but as we did win in a large court case in Germany that we can tax-deduct realized losses and impairments on investments from the years 2001 and '02 that cost us actually almost EUR 1,050,000,000 of positive tax result.

This tax result we are sharing, to a large extent, with the Life policyholders in Germany. This is this EUR 901 million. So it is, in the end, a direct booking from taxes backed from the tax authorities directly to the policyholders in the German Life book. We are showing the number here as neutral in that pre- and post-tax lines, so we have a positive in the income tax and then the negative in the reclass of tax benefits. From this court case on the tax decision, the EUR 1,050,000,000, so EUR 150 million helped our corporate taxes. Therefore, we are slightly down compared to the 34% of last year, but this is also because we had less one-offs.

So going forward, I think 32% is a good starting point also for the year 2015. But of course, we are always trying to work on it but have also to see that some countries are working against us with their policy, which will ease the tax burden for the corporation.

Overall, let me summarize. So revenue, double-digit up; operating profit, 3.3% up; shareholders' net income, 4% up. That is not mentioned that there is very good news for the dividend, but I think Michael will talk about it at the end. And overall, we have a strong capital and balance sheet position, where, I think, we have brought the available capital back up to work in the previous year.

And with this, I hand over to Max.

Maximilian Zimmerer
Former Member of Management Board

Yes, hi. Good afternoon. Coming to B3, that's the investment portfolio. As you can see, it seems there are not many changes, and we grow our assets by a roughly EUR 80 billion. The main reason for that is, let's say, half of that is business grows, and the other half, a little bit more than that. It's purely performance-driven.

This is the IFRS number that when compared to the pure market view, the real estate part would be a little bit higher. That means we had a weighting of 4%. As you know, real estate is booked from the IFRS to book values, and it does not include the loan assets of the market value number, and the 4% would include both.

But this is the main difference. If you're seeing the quality of the investment portfolio, it has not really changed. The duration numbers have changed. You can see them on the right side. So the main reason for that is the lower interest rates, they had an impact not only on the asset side, but also on the liability side overall.

You can see there is a slight mismatch along on the asset side, on the P&C side and a little bit charge on the Life side. But we are pretty long also a single comparison to the market that saves us. If you're seeing the very low interest rates. But I'll come back to that later.

Now next page. Before they had tried to come up with a summary of investment performance starting with the current income, we have achieved EUR 21 million -- EUR 21 billion of current income that is a little bit higher than last year, that I am a little bit proud of because the reinvestment yields have been pretty low overall.

The current yield right now is at 3.7%. It came down from 3.9%. And then if you add to that the realized gains and losses, impairments, trading results and investment expenses, the overall total IFRS results is at EUR 21.6 billion, a little bit higher than last year.

And then the more interesting figure, as you're seeing, the total performance that's a change in unrealized gains and losses. It's a very large number, it's EUR 46 billion, that brings us then to the total performance of 11.8%. But let's face it, most of that comes from lower interest rates. That's wonderful for the performance, not so nice for the reinvestment yields in the end.

What was really interesting in this year is that fixed income, at least if you were invested in very long-term bonds, outperformed heavily stocks. What was a surprise for me, I can't tell you. Stocks did also very well, but not to the same extent as long-term bonds.

Now what did we do last year on the investment side. There were active changes you see on Page B5. We invested additionally in equities. That means public equity, that EUR 3.7 billion. Timing was okay, but it would have been better if we have started only in the last quarter of last year. If you take the January performance, I'm very happy that we did that. And then on the private equity, real estate and also alternative debt side, we, as you know, has a strategy that we want to have more in that respect, and that brings me also to the Page B6 that is showing the real asset-based financing. This chapter usually are very much liked as you know. We had a midterm goal of EUR 80 billion over the next 3 years. We have already achieved EUR 74 billion, and our next 3-year target would be around EUR 110 billion. That it is not a fixed target only to say that it's very much dependent on market conditions, but also, on the risk capital, we would need to finance that one. Overall, I like that sector very well because it's differentiating us from competition, and so far, it has a possibility to gain some extra margin. This is really the margin that goes to the banks. And the second thing is usually, you can add some diversification. If you compare the 2 financing banks at least, that means you avoid the cluster risk. And also I think the transparency of the risks are better if you do it directly. But what is needed there, you need really professional expert teams. I'm happy that we have them not only at Allianz Investment Management, but also in Allianz Global Investors. We have professional teams, and I think that we are little bit ahead of the market.

Now coming to the new investment yields on Page B7. Overall, they were much lower than the year before, but in comparison to the very low yields we have right now, they are pretty strong. I think, on the P&C side, that's 2.4% and nearly the same in the 2013. In the Life side, because we are longer there, it's 2.7%. If you add to that the current yields on the real assets, that's under 4% overall. You can see also the maturity differences. Life, in average, you can see, 4 years longer, if you see the reinvestments and such.

That brings me to Page B8, the 2 comparisons between the total yield of our portfolio and the minimum guarantees. The total yield, you can relate to your assets, and that would bring you to a yield of 4.7%, but you can also do -- 3.9%. But if you relate that to the technical reserves, because we have higher and more assets than technical reserves, then the number is at 4.7%. That means we have still a margin of 2.3% in comparison to the minimum guarantees of 2.4%. We think that's really a strong buffer. And what is also stated here that now the reinvestment yield in Germany is only at 0.7%. If we would cut all the crediting rates at once and would say what do we need as the reinvestment yields to finance the guarantees in Germany, it would bring us to the 0.7%.

If you can compare the 2.7% at a reinvestment yield, that means we have a strong buffer so also in that respect. Now if you compare that to the new business, the reinvestment yield is already set 2.7%. The average guarantee for new businesses is at 1.0%. That means also there is still a relatively high margin of 1.7%, I think, which works very well when we started the lower guarantee products, especially in Germany, Perspektive, but also in Italy, unit-linked and fixed-indexed annuities in the [indiscernible] product. And If I were to take -- make a forecast, for this year, I think the guarantees for the new business will go further down. I expect something around 0.7% and 0.8%.

Now to B9, the outlook overall. I think I have not really described what has happened on the markets in 2014. The most important event for us was the announcement of the quantitative easing by the ECB that will start in the 1st of March this year that brought the interest rates dramatically down to all-time lows. Fortunately, Mr. [indiscernible] announced 2 days ago that we will see at least 1 or 2 or 3 hikes in 2015. I think, at least, that should work as a kind of stop also for the European rates, but let's see.

Overall, I think that real assets are much more interesting than bonds because I think we are in Bubble Mania on the bond side. But that's the thing I would like to end with. Thank you.

Michael Diekmann
Chairman of Supervisory Board

Great. So good afternoon, everybody. I have been moved to Section C. That's probably what happens when you're phasing out. I accept that. Then I was a little surprised, frankly, about the harsh reaction of markets this morning. In fact, they're all down. Now that seems to have lot and a little bit. I'm very happy that we have the opportunity next week to talk to you and sort of talk about all the technical questions around solvency and sensitivity and so on.

Anyhow, so if I make the assessment, what went well -- went wrong. The revenue and profit growth, I think, is very good, especially translating into real customer growth of 2 million. So as Dieter has said, it's volume driven and not price driven. Capital strength would still depend. That's a very strong point for Allianz. And then when we look at the -- what I would call outperformers in Germany, Allianz Life and Allianz Global Investors, who added about an improvement of EUR 1 billion, I think that's very encouraging.

Now difficult. The reinvestment environment. But I would also say from a competitive point of view, it's an opportunity. So regulatory uncertainties remain, but I want to -- don't want to go too deep into that, because otherwise, we're going to lose ourselves in technical details. And obviously, the political tensions that we see all around Europe are bad now for us. It's good that our direct exposure to Russia, Ukraine, Middle East and Nigeria is pretty low.

PIMCO outflows, higher end of our expectation. And then on 3 underperforming units, offer potential for next year. But obviously, we're not happy about that.

Now when we turn to the next page, which we have by business highlights 2014. I would like to point out a little bit of the operational underlying trends. And here, you can see, under P&C non-motor retail, very good progress in digital product. I think that's going to be a competitive advantage going forward. And the shift on the Life side to asset liability matched products in Life, I think we made very good progress, especially here in the market in Germany. Let's just see this year 2014 as a sort of opening up of this market, which I think for a market leader is the appropriate action. And I'm very happy that the market accepts this proposal, so we can work on that stronger in 2015.

Now turning to our portfolio measures on the next page. I'm going to talk about acquisitions a little later. I think we were very timely in addressing the issues in Russia and Ukraine. We did not wait. We did not wait as long as with Fireman's Fund. But Fireman’s Fund, I think the solution that we found, to get into competitive levels on the corporate business and to find a good home for our private business, was a -- is a very good achievement. And then last but not least, the transition in PIMCO, I think is working very well despite the noise on the outflow side.

Now if I look at the next page, operating profit. I was a little disappointed on the Q4 in P&C as well. But as Dieter has explained, I think it's the right actions that we took to make sure that 2015, we're not getting any surprises here.

Now the capital management and growth, we discussed for years and years the dividend policy. Now we have dividend policy. I can [indiscernible] information that my colleagues have not given yet. And that's about the abrogation of unused budget for external growth. We spent around EUR 900 million of a budget of EUR 1.2 billion in 2014. So we will add around EUR 300 million to the budget in 2015. That is then upped the valuations.

The next slide, EUR 6.84 (sic) [EUR 6.85]. I sense a little bit of dissatisfaction with that, as people were expecting something like EUR 7. Now if we compare the EUR 6.84 (sic) [EUR 6.85] to what you can achieve in the market today, at the low volatility of the result of Allianz, I think we should give this a little bit of a positive sense. And let's not forget, there's a ratchet here, which I think should make the stock very attractive going forward.

Now when we look at the next slide and the acquisition. So we also have regular debates about how disciplined is Allianz on the acquisition side. If we look at the activities in 2014, I think they're totally in line with the discussions we had. The 725 agencies that we've added in Italy, exactly in the right region, in a business that is scalable. And by the way, the 722 agencies have been fully integrated into the digital agency model now. I think it's going to be a good contribution to the performance in Italy in the future.

I'm also very happy about the small, but not unimportant addition that we could achieve in Australia, where we have a great management. And this will add to diversification because we were underrepresented in the territory.

Now on the next page, coming to underlying growth in P&C. Dieter has already said, if you exclude Fireman’s Fund Russia and Brazil where we are shrinking the business, we have an underlying growth of 4.5%. Very happy about the smallest number here, 2.6% in Germany because that really shows us that we have crossed the line now of negative growth and adding a premium note to the existing customer base. We will have a press conference next week with our German colleagues, and they will actually tell us about net growth in customers on the P&C side. And also much more activity on the non-motor side, which I think is good as well.

Dieter has mentioned AGC&S. Our AWP, I think, is working very well. And that's an important one because that's the backbone of our digital strategy, where we add a lot of service components from Allianz Worldwide Partners.

Now the Life side. I've talked about the German shift and we definitely have to accelerate that. The lower traditional guarantees in the Italian book and the move to the unit-linked side with our partner, UniCredit, works very well. And the fixed income annuities in the U.S., as you can see here, are working very well as well. When Dieter and myself were in the U.S. earlier this year, shareholders urged us to increase that business because it's just the right environment and the right offer in that environment.

Now coming to PIMCO on Page 14 (sic) [Page 13]. We not only believe in PIMCO as our subsidiary, but we also believe in them as investing our assets. You can see here on the right-hand side that Allianz manages about 55% of our assets, and this is at arm’s length. And we wouldn't do that if the performance wouldn't be justifying that. So we have an outperforming third-party assets under management of 88%, which I think, helps us also on the competitiveness side with our Life business.

Now the market gives us the feedback on our digital strategy, that we are well positioned. And I would confirm that. We'll be making a lot of progress, as I've shown in the second page on digital products, modular products. A lot of them are priced real time. And the -- that allows us for Direct quotes. Where -- just to give you a number, since we've introduced Direct quote in Italy in 2012, we've made over 10 million quotes already. So that's becoming more and more a standard that, by the way, we've introduced in many other countries now as well. We've started early to address, not only multichannel but multi-access, and we get a good integration now of online and agent channels. Our advanced analytics, just to give you one practical case where we apply that, that's for the detection of fraud cases. That's a very interesting move here now, especially when you look at organized motor fraud. And on the automation side, obviously, we are making good progress in process automation of standard cases, which [indiscernible] now, it is now to 90%.

Data protection becomes a more important issue and we started early with our data center consolidation project. Where we're in the middle of consolidating 140 data centers down into 7, which then will help us much better to deal with the personal data protection.

Now I'm turning to the page on our operating outlook. This outlook of EUR 10.4 billion, plus/minus EUR 400 million, I think is taking 2 things into consideration. It's the good performance, solid performance in 2014. And also cautious look at 2015. This is out in the overselling but also giving you an impression of our confidence to manage the volatility of the result even better than in the past.

And now when we look at the operating profit outlook 2015. On the segment side -- that's the next page, I would just like to give a little head up on where do we think that we have good indicators, underliers for profit in 2015.

Now first, I would like to mention again the growth in 2014 of 10%; Life, nearly 20%; P&C volume driven close to 4%, with good performance of our new modular retail products. We do see a higher operating asset base. And together with investment expertise that Max has talked about, that should help. And also, we have higher reserve levels on the P&C side.

Now the one-off in P&C 2014, that's around EUR 500 million at least at Russia Fireman's Fund and Brazil. But also, about EUR 80 million of integration costs in Fort Unipol business in Italy. We do see a consistent great performance of PIMCO, and Dieter has talked about the performance fees, the success fees. Then we have a clear expectation for higher performance fees from closed funds in Q4 2015. We have the exchange costs, the dollar that has not translated into additional earnings on the PIMCO side yet. Then the long duration of our investments and the growing asset base.

And then last but not least, we have replaced 2 board members with 2 very experienced new board members. So the technical expertise and the market expertise on the board has not weakened at all. I think it's even stronger than it was before.

Then last but not the least, the transition to the new CEO is working very well. There are no frictions in the team. And Oliver is just visiting all the places that he doesn't know yet, and where he might not have the time to visit them once he's in charge. But he is obviously, a part of all the decisions we are making that have an impact on the future.

And with that, I would like to close, just on time, and open the Q&A, if Oliver doesn't want to do that.

Oliver Schmidt
Head of Investor Relations
[indiscernible] no, we are ready and happy to take your questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Michael Huttner of JPMorgan.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

Actually I'm not sure how many I'm allowed. You can cut me off. The -- my first question is on the solvency. So just to get a feel for how you judge it internally. The ratio of 1.91% isn't great or compared to what we've been used to. I know the moving parts, you said, the positive adjustments, and then negative from low interest rates. But where do you see it kind of settling around? And then, what level should we start to feel, ooh, we need to work a bit. We can't fund all this growth. The second is very specific. It's just on the -- can you give an update on German [indiscernible], albeit, the premium refund reserve calculation, et cetera. And also, the unrealized gains in Switzerland. Zurich, you have a very good answer, which was to say that past 2018 and 2019, funding the [indiscernible] would cost them operating losses. So that's a negative. And then the last point, which was not really a serious question. It's more, well done, Mr. Diekmann, and thank you very much. But also, given that there's only EUR 200 million missing to be at what consensus was. Weren't you a bit tempted, just a little bit to put [indiscernible] anyway?

Michael Diekmann
Chairman of Supervisory Board

Yes. I can start with the second question. No, I was not tempted because for me, it's really important that we have a solid results here, and not work on some record results. We had a Supervisory Board meeting yesterday with auditors from BaFin, and that what was my first question to the auditors. Is there anything in the result that was mortgaging the future? And the clear answer was, no, just the opposite. And that's exactly the way how I would like to exit.

Dieter F. Wemmer
CFO & Member of Management Board

Michael, I think as I tried to explain on all the movement of Solvency II, well, first of all, we cannot guarantee that our internal model is being approved as applied for. So that is an uncertainty. I think all companies in Europe have to list this until they get the green light from the regulator. And you can anticipate that the green light will come somewhere December 2015. And that is for almost all the players the same. Secondly, as I've tried to indicate, we are really trying to do an active management of the level. And that means that we think as long as we are -- a sound level above the 160%, and I assume that this is what you actually wanted to ask. You don't need to be concerned about the dividend announcement. And we will keep the level soundly above the 160% level, as you would expect. And we will actively manage the number. But I think we have also built in quite a lot of conservative things. So you ask how the RfB and [indiscernible] is developing in the financing. I think when you would calculate all the funds in our German Life subsidiary, you come to a substantial number in percentage of the reserves. It's clearly above 25%, we have on the asset side as well as on the liability side in cushion. And I wouldn't see any sense that our financing out of the operating results based on the starting point. And even if we do the calculation longer than the 8, 9 years, because I think Max said, when we do reinvest our money at 0.7% in Germany, we can pay off all the guarantees. That means in the end, even [indiscernible] are going 0.7% down, would still be carrying through as a fairly, fairly low number. Well, you never know how many years the quantitative easing in Europe is holding, but it is certainly not in the next couple of decades.

Operator

Our next question comes from Farooq Hanif of Citi.

Farooq Hanif
Citigroup Inc, Research Division

I just want to ask one more question on solvency. Can you tell us what your kind of minimum RBC ratio assumption is? Because I think there's a bit of confusion in the footnote. I just wanted to understand how yours compares to some of your peers? And then secondly, on the Life business. I'm intrigued by your forecast of roughly flat profits, given the great achievements you're making in shifting mix. The fact that you're defending your margins, I was just wondering what kind of -- what you think the drivers are there? And then associated with that, you mentioned the 2.7% reinvestment yield at Life, but you're making considerable investments in real assets. So what do you think the income yield would be, if you included those real assets on top of the 2.7%?

Dieter F. Wemmer
CFO & Member of Management Board

Okay. I take the easy question on the U.S. RBC ratio. So we actually had in the disclosure, we call this 100% RBC. That is a classical insurance-style misleading information. So we mean 200% of local statutory requirements. So the -- what the 200% is called company-action level, that means that it's sufficient. I can also turn it around in the other way. As you calculate now the group solvency as the weighted average between the U.S. number and the internal model number, our U.S. number goes into the calculation with 175%, because we run day-to-day also due to our A.M. Best weighting the company at a 350% of statutory base requirements. The 350% divided by 200% capital action level, you have 175% ratio, how it is then being rated is the ratio of the internal model country. So it dilutes slightly the ratio.

And the forecast on the...

Maximilian Zimmerer
Former Member of Management Board

Yes. The forecast -- or in terms of Life, you can say that the current yield all in all will go down, perhaps, something between 0.1% and 0.2% every year, that's the running rate you have in there. The real assets are included.

Farooq Hanif
Citigroup Inc, Research Division

No. I meant, sorry -- if I may return on that. I meant, the 2.7% you're making on fixed income, maybe I misunderstood your answer. But how much additional yield do you make on top of the 2.7%?

Maximilian Zimmerer
Former Member of Management Board

That is also described on PB6. If you go only for the real assets, all the alternative fixed income assets are included in the 2.7%. If you go now only for the equity part, that's real estate, that's equities, and that's the renewable part and infrastructure. There, the running yield, current yield is at 4%. And then you can say, in addition to that also, price increases but that depends very much on the asset class. That can be something between 2% and 5%. But what I can tell you the influence on the reinvestment yield. What I said right now is the influence on the yields of the portfolio for the next year, and the overall impact of lower interest rates and the lower reinvestment yields, including their --include the real assets is about 0.1% or 0.2% lower for next year, yes?

Farooq Hanif
Citigroup Inc, Research Division

And do you think this is why you're forecasting flattish like profits? Or is there other...

Maximilian Zimmerer
Former Member of Management Board

Yes, true, true. But -- because we have a growth overall in the business, so...

Operator

[Operator Instructions] Our next question comes from Andy Broadfield of Barclays.

Andrew Broadfield
Barclays PLC, Research Division

A couple of questions, please. Just on Italy P&C, I'm clear you may have asked this -- answered this in the past. But I was just wondering with your organic number, organic growth, if you like, or internal growth is negative, given your very strong performance there, I would've thought that was the -- thought the strategy was to try and see if you could actually grow that. I was just wondering if you can explain why that was negative, the P&C internal growth in Italy. And on your decision to include U.S. equivalents, when in the past, I think you described it as being agnostic, I thought you'd taken it as a sort of slightly more purist view that you would just have a consistent methodology across the group. I'm just interested -- you've included it now -- is this now, it's in for good? Or is this a sort of strategy to cherry-pick or just whatever is convenient? I'm a little confused why you should do that now. And just a final question just on your Slide B8, which references the 0.7% reinvestment yield. I just want to understand what that really means? Does that mean if you were to retain all the profits you made between now and the running yield collapsing to below the guarantee levels, you'd be able to take all those and that would pay for the losses afterwards? Or does that mean that you would be breakeven over -- by the end? Or I'm not quite sure how to interpret quite what that statement is.

Maximilian Zimmerer
Former Member of Management Board

This one. It's working.

Michael Diekmann
Chairman of Supervisory Board

So Andy, maybe I can start with the Italian side. If you look at the market, the price or rate development is negative. We are better than the market here, and that's the internal growth side. So that's minus 1.2%. Now if you add Unipol and you arrived at a gross of 4.1%, that's the total growth, yes? So we divide between organic and unorganic growth.

Andrew Broadfield
Barclays PLC, Research Division

I guess, my expectation was that, given the very, very good margins you are making, I know the market in general as well. But you are still somewhere ahead of the market, that you'd be able to give more level, global more than the sort of -- on the non-Unipol part of the business?

Michael Diekmann
Chairman of Supervisory Board

Well, that’s we do. The risk growth is there. And the growth of -- the organic growth is much better than market. I think the market has declined by around 4 percentage points.

Dieter F. Wemmer
CFO & Member of Management Board

And Italian motor market is down 6%, 7% over -- at least the first 9 months. 12-month figures, I have not yet seen. So the total market minus 4%, more [indiscernible] minus 6%, 7%. So minus 1% is still a small increase in market share.

Andrew Broadfield
Barclays PLC, Research Division

Okay. So probably, policies in force has grown but premiums not. Okay.

Dieter F. Wemmer
CFO & Member of Management Board

Yes, sure. That is -- we are coming from a substantial outperformance on the motor combined ratio. That is what you expect or not. We are keeping a strong positive distance to the performance of the market, but you cannot expect that it just -- does not relate to the market. And your question on U.S. equivalents. Well, as I said, I think on one hand, it is certainly good for the overall capital management. I think it makes us, indeed, more comparable to our peers. And then also, I think we have figured out -- we have already probably the largest number of legal entities in our internal model, which are going through the approval process. And a simplification of it is actually, also not bad. And U.S. Life business is, in particular, for European regulators, quite an alien portfolio. So the simplification overall, I think it's probably helpful for us in all the negotiations and all the explanation we have to do in the first 9 months. So that is probably what makes it to be a reasonable decision, plus the fact, at the current interest rate level, yes, it had a positive effect. But as we all believe that the U.S. will be the first country in the Western world to recover interest rates, so midterm, the impact on the solvency ratio is very flattish.

Andrew Broadfield
Barclays PLC, Research Division

So you say you persist with it now. That's in and that's how it’s going to stay.

Dieter F. Wemmer
CFO & Member of Management Board

Yes, well, then you're not filing it -- well, I can't say forever, because what is also true is that as soon as the internal model is approved, we will actually file a new application beginning of 2016 for a number of changes we do in our internal group organization and new software packages, et cetera. So this approval process is anyway, a new industry, which has been created.

Andrew Broadfield
Barclays PLC, Research Division

And will you manage the business based on U.S. equivalents or based on the sort of consistent [indiscernible]

Dieter F. Wemmer
CFO & Member of Management Board

Internal benchmark and pricing of the product, we will stick to our internal model, which is not completely consistent with the Solvency II model. We have some strict economic assumption in it than the Solvency II legal tax is stipulating.

Maximilian Zimmerer
Former Member of Management Board

Now coming to the question to Life Germany. You know that the average guarantee right now in Life Germany is around 3% but it goes down every year by, let's say, 5 to 7 basis points. What is shown here with the reinvestment yield of 0.7% is a pure risk scenario that is not what I expect, only to say that, and that works into the assumption of a runoff. And that means also we catch all the crediting rates to the customers. We pay only the minimum dividend to the shareholders. And then the buffers we have right now would be sufficient with the reinvestment yield of 0.7% to pay all the guarantees.

Andrew Broadfield
Barclays PLC, Research Division

So effectively, no earnings, no dividends is the...

Maximilian Zimmerer
Former Member of Management Board

There are dividends, but these are minimum dividends. There are -- this is a clear requirement by law, yes? And only to compare that number, it has been at 1%. That means we have lowered the minimum numbers, also due to some measures we have taken. But it's also the easy out that's at -- but also the extension of the duration. And the new products have also worked into that direction.

Operator

Our next question comes from William Hawkins of RKW.

William Hawkins
Keefe, Bruyette & Woods Limited, Research Division

I think that was KBW. Three quick questions. What's the outlook for your Life investment margin? You had a good 80 basis points last year. You did talk about sort of -- I think you talked about gains in the rest of the hedging benefits. So should that figure be trending down? Or do you think it's a figure that you can sustain in a low-yield environment? Secondly, I think this has been asked before but I've forgotten the answer. Last year, how are you achieving 2.5% to 2.7% yields on government bonds when the vast majority of your portfolio is in Europe? And can you just remind us what the new money investment rate is? Because again, I'd be amazed if it's much north of 2% on governments. And then finally, I think you referred to more performance fees in PIMCO in 4Q of '15. And I thought, Dieter, previously you were saying that actually, the performance fees would be lumpier from 2016. So has something changed in the timing of PIMCO's performance fees?

Dieter F. Wemmer
CFO & Member of Management Board

Okay. I'll start with PIMCO performance fees. Yes, it was not really clear when the maturity of the -- that is buffer to closed funds would happen. It depends when the investment targets are reached and then the sales starts. And that is now being expected in the month more at the end of this year. So probably, starting somewhere in September, October, November, December. And that would then bring in the performance fees into [indiscernible] 2015, and there will be also some overhang in 2016.

William Hawkins
Keefe, Bruyette & Woods Limited, Research Division

May I just cut in there? Does that mean we're effectively just accelerating what you'd hoped from '16? Or is it actually, in aggregate, a bigger number?

Dieter F. Wemmer
CFO & Member of Management Board

It is certainly an attractive number. But I -- we did only mention it that you will not say -- when you look at the average result of PIMCO in the first 3 quarters and say, "How do you want to make your target range for the whole year?" Q4 will have a substantially higher operating profit than Q1, 2 and 3. That is just by the fact of the performance fees. And in '16, I think we will certainly still have some of the one-off performance fees. The total might also be higher than what we talked about 1 year ago. So the outlook Life investment margin is still in this range, 75 basis points plus/minus. With the mark-to-market of some of the investments, it is not absolutely controllable to the last basis point.

Maximilian Zimmerer
Former Member of Management Board

Now to the question on the investment side, you're referring to Page B7, I think, the reinvestment yield on government for the Life business. It was 2.7% last year, and as shown in average maturity, was 15 years. And that is mainly, let's say, between 70% and 80% developed markets. These are mainly euro markets, but also U.S. And then emerging markets, they're around a little bit more than 20%. And the developed markets, the average yield, reinvestment yield was at 2.2%; and the emerging market side is 4.5%. To say that emerging markets is 2/3 usually hedged against euro or U.S. dollar and the rest usually is in local currency. And the average rating on the emerging market was a BBB and on the developed markets, it's single A.

William Hawkins
Keefe, Bruyette & Woods Limited, Research Division

And where are we right now -- or give or take right now?

Maximilian Zimmerer

Former Member of Management Board

That's a very good question. I can't give you the number. I can only tell you that in the last quarter, the reinvestment yield overall went down from 2.7% to 2.3%, but that's the only thing I can say. Generally, I think it's a little bit early to call the number for the year.

Operator

Our next question comes from Andrew Mitchie (sic) [Andrew Ritchie] of Autonomous.

Andrew James Ritchie
Autonomous Research LLP

A couple of quick questions. First of all, just on the guidance, the midpoint of the guidance, let's say, what was your -- what's the overall tailwind from FX that you're building in there? I think it -- roughly at the back of the envelope, it would be a couple of hundred million euros. Maybe just clarify what is the overall FX benefit in '15. And secondly, on PIMCO, I think I just wanted to understand a bit more about your confidence in the result and the outlook. It sounds like a large part of that is the performance fees. Because Michael, you referred to outflows being higher than you expected. What gives you confidence that we'll start to see some stability in those outflows, and maybe bring us up-to-date on that? And I guess, the other point on PIMCO, as the margin continues to deteriorate. What's your feeling in terms of resilience of that margin from here? That was it.

Michael Diekmann
Chairman of Supervisory Board

Yes. I don't know what I really got you right but [indiscernible] missed guidance. If you refer to the upper end of our operating...

Andrew James Ritchie
Autonomous Research LLP

No, I'm referring to the 2015 outlook. And what's the tailwind -- assumed tailwind from FX in the 2015 outlook? That must be quite substantial.

Dieter F. Wemmer
CFO & Member of Management Board

Okay. Maybe I do the FX tailwind. We have used in the outlook calculation, a euro/dollar exchange rate of $1.20. So that means, current, it's more $1.13, $1.14, so we did not go this far. We have taken a -- as you know us, a conservative stand on this point. So that it's the...

Andrew James Ritchie
Autonomous Research LLP

That's still, on average, 10% lower rate -- sorry, 10% better rate than '14, I guess?

Dieter F. Wemmer
CFO & Member of Management Board

That is 10% better than '14. There, it was $1.33 was the average, so it's 13%. So that makes then some EUR 250 million, EUR 300 million for all the U.S. businesses together. So that affects the U.S. Life business, which has obviously, with the great new business and improved profitability next year; and the P&C business, we write in the U.S.; and also, the Asset Management.

Michael Diekmann
Chairman of Supervisory Board

And the confidence on PIMCO. I think we are mentioning this performance fees because it will give us some additional tailwind. But I'm actually building my confidence on different things. First, I'm talking on a weekly basis to large clients of PIMCO and to large distributors like UBS, Morgan Stanley and so on. So basically, the confidence of our investors is unbroken. I'm not only talking about German or European corporates, I'm including Asians, Middle East and U.S. corporates, plus pension funds as well. So the first wave that we've seen of outflows was linked to retail investors in the U.S. I think that is probably always the weakest spot because we don't have a direct contact to these clients. Then you have, obviously, over the change of the year, the execution of trustee decisions. You know that might have been taken already in October and November. So if I look at the patterns now that we are following, we think this wave 1 on the retail side, wave 2 institutional investors and trustees is over. And I've talked to a couple of the PIMCO guys yesterday and asked them for, give me some hints on where do we see inflows. So we are collecting new money and not only in the U.S. but also in Europe, Asia and Middle East. So I think this sort of negative spill that you're getting into, it's something that is basically linked to the Bill Gross departure and consequent decisions. And there's nothing to do with the current situation and performance, so that makes me confident. I'm not declaring victory here but it's really the feedback that I'm getting from investors. And just to give you an idea how I do this, so I'm going to call -- I would call a CEO of a large corporate client and tell him, I want to talk to you in 3 days about PIMCO and your investments, so please talk to your investment people so that we don't have an uneducated discussion but really, an educated one. So I put a high reliability on these feedbacks in the market.

Andrew James Ritchie
Autonomous Research LLP

Do you still anticipating net outflows through the first half, is that correct?

Michael Diekmann
Chairman of Supervisory Board

Yes. I wouldn't be surprised but I would expect them at a lower volumes as we've seen in Q4.

Andrew James Ritchie
Autonomous Research LLP

And the discussion on margins, I know there's a mix effect...

Michael Diekmann
Chairman of Supervisory Board

Yes, yes, sure.

Andrew James Ritchie
Autonomous Research LLP

But in terms of -- is it only pricing affect as well as a mix effect?

Alexander Vollert
Former Chief Operating Officer and Member of Management Board

I would say it's -- actually, if you lose retail clients that basically come in as a higher-margin, that the margin is weakening a little bit. But if I look at the development, this is not a substantial shift here, yes?

Dieter F. Wemmer
CFO & Member of Management Board

It's mainly, mix-driven and going forward in '15, I think that this more the point that we have still in '15, the heightened expense level at the retention program. So certainly, in '15, we will not have the cost income ratio starting with a 5 because income ratio will probably start with a 6. But that is with the heightened expense spending quite obvious, but that is the investment in all this. We changed restructuring program at PIMCO and I think what we have forgotten to discuss and mentioned is that actually, the total return fund we gained it's 5-star rating. So it was -- I felt a bit premature in lieu with used the 4 stars. And now after everybody recognize that also the new team is actually understanding how the total return fund works, actual performance basis are very good. In particular, last month was really adding a top month. So we are back on track with this one. As this is always getting the highest media attention, I think that is also then pivoting that development of PIMCO in the future.

Alexander Vollert
Former Chief Operating Officer and Member of Management Board

And I would also like add another one because we've been asked this by the media this morning, the same question. And I was referring back to Max and the asset allocation of Allianz. Now as everybody is talking about equities these days, probably if you could, you would be invested at a much higher rate into equities. Welcome back déjà vu 2002, 2003. Unfortunately, capital solvency and so on will not allow people to do what they would like to do as private people these days. So there will always be a very high allocation to bonds. And I think at some point in time, people will realize that if you have to manage a bond portfolio, you better get a portfolio manager who is best at that. And I think there's no doubt out there that the reputation of PIMCO was not only run by Bill Gross but by the whole organization.

Andrew James Ritchie
Autonomous Research LLP

Okay. And just to be clear, are you giving us the numbers for outflows in January and February?

Dieter F. Wemmer
CFO & Member of Management Board

In February, it's substantially lighter than January. I think the -- I'm not disclosing the number but the trend is clearly absolutely fine.

Operator

Our next question comes from James Shuck of UBS.

James Austin Shuck
UBS Investment Bank, Research Division

I have 2 questions, please. Michael, the first question is just around technology and digital. And I was keen to kind of get your thoughts on how we progressed over the past sort of 2 or 3 years under your stewardship. What do you think Allianz has done well, particularly at the center, in terms of using kind of efficient target operating models and implementing best practices throughout the group? And then kind of looking forward a bit more over the past few years, I mean, technology and digital is creating a number of challenges for companies like Allianz and you're likely to come into contact with greater competition from non-insurance companies. There's a number of things going on, whether it's usage-based insurance or whether it's connected cars or connected homes. So obviously, you're not disappearing into the sidelines just yet but I just want to just kind of get your kind of big picture thoughts about what the future actually looks for a properly digitally-enabled company as Allianz should intend to be? And then secondly, just in terms of kind of the earnings growth potential, I mean, it's kind of linked to the first question. But at the moment, your guidance for next year is limited in terms of earnings growth but that's clearly understandable in a low bond yield environment but you have got a number of one-offs dragging on the numbers, the near-term outlook probably doesn't look too strong in terms of growth. But there's going to be a time when you become operationally more efficient and that should be, as a lot of this technological change starts to grind through, your competitive positioning looks stronger and particularly in places like France and Germany and the U.K. So I guess once we get past this initial kind of headwind in the next year or 2 of lower rates and just the level of investment that's needed, what is the kind of medium-term earnings growth potential of Allianz?

Michael Diekmann
Chairman of Supervisory Board

I think that's a very good question for Oliver. I don't want to put him on the spot here. But if we look at what we've done in Allianz so far, we've always started from the architectural side. So architecture means business model first and then we go into applying that. So business model in this sense was the target operating model that I think is really a pre for a change done on the business model side. The first thing that needed to be addressed was the move to get away from the sales channels, tiering to multi-excess tiering, then we have rationalized product portfolios, then we have rationalized the IT platforms. And then we've founded AWP as a sort of central source for digital partnerships and our service components. And now just to give you another flavor, not only from the insurance side but from the Asset Management side, we've just put in place an affinity platform for asset management products that we can -- we have tested that within the Allianz world, and now we can apply that to large corporate customers as well. So there's a whole bouquet of activities now. And then you have an innovation piece that we never talk about. Some of our competitors do and maybe get a higher attention on this. But the same sort of partnerships that our French friends are undergoing, obviously, we do as well. We do this a little bit more silent on the automotive side, on the telecommunications side. We are talking to Internet companies just as well, and we have a little innovation platform in AWP. And here in Munich, you know that it provides is with some interesting ideas but also as a partner for venture, capitalist partners in outside of Europe. So I think there's a whole range of things that obviously -- and that is more the focus from Oliver and our COO. We'll then at some point in time, not only reach safe levels, but also get into efficiency that right now, all these gains have been reinvested and developing further capabilities. But I think Oliver will be very happy to talk about this going forward because it's obviously one of the future questions for the industry and for Allianz.

Operator

[Operator Instructions] Our next question comes from Jon Hocking of Morgan Stanley.

Jonathan Michael Hocking
Morgan Stanley, Research Division

I've got 3 questions, please. Firstly, on capital, I wonder if you could comment as to whether you made any other methodology changes in the fourth quarter in addition to the equivalents. And associated point is did you mention the internal model approvals you're starting next quarter? Could you comment on whether you'd be above 1 60 for using the standard model, vis-à-vis the internal model? That's just the first question. Second question, on the sort of NatCat experience, on the headline numbers, you've looked like you've got a big sort of headwind to the numbers in '14. You mentioned some of the smaller losses that maybe wouldn't be classified as NatCat more of a large than normal. I just wondered whether you could give a number as the benefit you saw on your view in '14 from the NatCat? And then just finally, on guarantees, on the slide I think it's B8, you've got the minimum guarantee for new business across the Life book of 100 basis points, I think. I just wonder what your view was, given the equity yields have declined. Is there an argument that, that rate should be coming down faster than it is, because arguably, I guess even a 0 percent guarantee is very valuable in this environment.

Dieter F. Wemmer
CFO & Member of Management Board

Well, sure, let me first start with the capital changes in the model. There were a number of changes included which I think in total, are actually being more or less neutral. We have the equivalence I have spoken about and the reduced the charge for the government bonds for the sovereign versus from a full charge like a corporate bonds to what the regulatory called the domestic light model. On the other hand, we increased the risk charges because we introduced pension risk for our own pension liabilities. And then there are some technical things on the [indiscernible] of the surplus fund and things like that, but that is [indiscernible] more technical in nature. As we are applying for an internal model, we are not talking about our standard model number. On Cat Nat -- sorry, yes, Jon?

Jonathan Michael Hocking
Morgan Stanley, Research Division

Sorry. Can I just come back on the sovereign charge? How does the sovereign charge work? You say you mentioned domestic life model, I'm not familiar with that. How does it -- is that a smaller charge than the similar rated corporate, I guess?

Dieter F. Wemmer
CFO & Member of Management Board

Domestic light is a variation where we are not taking the full charge of like you have in a corporate bond, that means on the corporate, at the group level need apply a favorable number charge only on domestically held but the government bonds issued in foreign currency, not the full or this free [ph] treatment. These bonds are then considered to be AAA. Otherwise, they are assigned the actual rating if held outside the country of issuance. So that was an agreement with the supervisory college that actually, in our group model, the Italian and Spanish bonds are being treated as equal to corporate bonds with their credit spread risk. But in the local model, they are being treated as risk-free for the standard loan legal entity. So that is more on a subsidiary level and not on a group level.

Jonathan Michael Hocking
Morgan Stanley, Research Division

And it's across all the bonds that are getting the charge and they're getting the charge?

Dieter F. Wemmer
CFO & Member of Management Board

In the cross-border, cross-border gets the charge also on the local model. But the group model, we treat everything -- well, cross-border which means form a churn perspective as the churn bonds anyway AAA so that is then not a change.

Jonathan Michael Hocking
Morgan Stanley, Research Division

Does that mean you're basically carrying extra capital agreed but not in the subsidiaries?

Dieter F. Wemmer
CFO & Member of Management Board

That is true. Yes, besides the cross-border. So if you have Italian bonds in France or Spanish bonds in Italy, then you have also it as a total model. And I think the NatCat question, I think compared to our standard Cat budget in 2014, I think we have around EUR 350 million to EUR 400 million consumed less, so up percentage points, roughly.

Michael Diekmann
Chairman of Supervisory Board

Now, the question to the guarantees?

Dieter F. Wemmer
CFO & Member of Management Board

Yes. The min -- you can go.

Michael Diekmann
Chairman of Supervisory Board

Yes, I can do it. I said for this year, we expect something between 0.7% to 0.8%. What is the reason for that? In the bigger markets, the German-speaking countries, the guarantee levels by law, their maximum level charge is 1.25% that means that would be significantly lower. That's a question overall of the business mix. That means we tried to offer more products which are not standard so that we can come up with lower guarantees overall, but where we also work on is that we try to avoid these lock-in guarantees for the crediting rates. We have also new products in that respect. And what is also very important, I see even more important is if we try to reduce the duration of the guarantees. That is very important because otherwise, we can't go for a matching approach on the asset side.

Jonathan Michael Hocking
Morgan Stanley, Research Division

Do you think you're in a position in Germany where your guarantees can be less competitive, given the financial strength you're offering clients? Or are you still offering similar levels to your competitors?

Maximilian Zimmerer
Former Member of Management Board

No. The Perspektive, I think is a very good example. We were the first to serve who offered that kind of product and it was possible for us because of our financial strength, it's obvious. This was a very big success right from the beginning, although we were heavily criticized by the press right from the start. But now I think not only customers are satisfied but also, competitors are trying to copy right now.

Michael Diekmann
Chairman of Supervisory Board

That is half of all the sales to the individual customers.

Maximilian Zimmerer
Former Member of Management Board

That has a 0.7% guarantee which is de facto guarantee when you just give a premium sun guarantee. So that is even now, with the official guarantee rate in Germany of 1.25%, are still 60 basis points lower than [indiscernible]. And last year, it was more than 1% lower than the guarantee.

Operator

Our next question comes from Thomas Seidl of Bernstein.

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

Three questions from my side, please. First, on capital. Again, Solvency II pro forma, you are at 191%. There was quite enormous volatility throughout the year. If you strip out the Life one-off, a 25% drop in the quarter. And also looking at the sensitivities versus credits for the interest rate, what makes you comfortable that you are not coming pretty close to the 160% threshold for the dividend? The first question. Second question, investment management. I think you mentioned rightfully that you are constrained to fixed income. Now with the additional headroom from QE and also considering the various credit expertise you have throughout the group, should we not expect Allianz to take here and there, more credit risk to mitigate the impact? And thirdly, on PIMCO, Michael, I think you mentioned for the first time, you didn't staff the equity team at PIMCO properly and hence, it was not a big success. Now when I look at the number, it's still showing 0 for PIMCO. So should we expect at some point, the equity team to deliver at PIMCO or will it remain a fixed income shop?

Michael Diekmann
Chairman of Supervisory Board

The last question is easy to answer. It will remain a fixed and mixed income shop because the pure volume of the equity funds. So I mean, 3% of the total and that will take time to develop. And I think it's good to have that in there but sorry, it cannot change and should not change, the focus on the fixed income side.

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

It's still showing 0, right, I think...

Michael Diekmann
Chairman of Supervisory Board

But we are talking about here, I have my specialist here what is the equity portion of...

Alexander Vollert
Former Chief Operating Officer and Member of Management Board

Proposition 1, 26 to 30?

Michael Diekmann
Chairman of Supervisory Board

EUR 30 billion to over EUR 1 trillion. Isn't that 5%?

Dieter F. Wemmer
CFO & Member of Management Board

Look, I think active capital management is always the same procedure. You have your current position. If you look at where you could reduce that if required. So you have a list of items which are close or already in execution and then you have a list of things you keep at the next layer of contingencies, if necessary, and that is how you manage your numbers. And that gives us the confidence that we can do it.

Michael Diekmann
Chairman of Supervisory Board

You asked about the credit risk, how we handle that? Can you ask the question again?

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

Sorry. Given the credit expertise you have throughout the group and given the additional headwinds key on the fixed income which is a larger, EBIT class obviously. It should be not assumed that you takes more credit risk here and there to mitigate the headwinds.

Michael Diekmann
Chairman of Supervisory Board

Yes. And I wanted to start right now with a busy answer. It's actually, you have to have a closer look on the credit spreads, also the credit spreads have come down significantly. Usually, that's the case if interest rates go down. If you are keen to achieve some return and therefore, take usually, more credit risk. If I think of the credit spreads levels right now, they are at a very low point but still way above the default rate that means that it's still attractive to do so. I think where we can earn some extra money is especially on the alternative debt side, and that's the area we are in. By that I mean usually private placements, mortgages, but also infrastructure debt. Unfortunately, you have to do it transition by transaction, that means to grow that part of the portfolio takes some time.

Operator

Our next question comes from Frank Kopfinger of Commerzbank.

Frank Kopfinger
Commerzbank AG, Research Division

I have 2 questions on your guidance. The first one is on -- could remind us again, I think, Mike, you mentioned EUR 500 million restructuring charges for 2014. So is this the figure we should look at 2014? And on the other side, do you have some sort of restructuring charges also reflected within your new guidance and if so, how much? And on the second question is on PIMCO again. On the Q4 cost/income ratio, the 64%. I understand that the part is driven by the management retention program which stays for some while but also driven by the mixed effects and marketing effects. So what is your guidance overall for the year or what sort of cost/income ratio is reflected within your new guidance?

Dieter F. Wemmer
CFO & Member of Management Board

So first of all, I think that the EUR 500 million restructuring charges, that was a frivolous misunderstanding. The EUR 500 million is a loss of our 3 P&C units: Russia, Brazil and U.S. which we don't want to repeat because we'll restructure it. But it's slightly different than a restructuring charge, though that is what we see on the P&C side as well as the easiest and low-hanging fruit in the upside. PIMCO, I said that's the cost-income ratio for 2015 starts with a 6.

Alexander Vollert
Former Chief Operating Officer and Member of Management Board

And now you add a 0.

Dieter F. Wemmer
CFO & Member of Management Board

And you add a 0, yes. And that is then depending on how the whole year plays out. And depending also, whether we need some additional investments or whether we can also start already to go back to normal so that we will see, as soon as it happens, and some more cost-efficient we can be for the rest of the year. But let's now start the year with our overall guidance. And in the end, we have never aimed to achieve every KPI we are talking about. It is in the end, about the overall promise of the operating profit of EUR 10.4 billion, and we don't want to meet 65 KPIs parallel. But that is in the end, is the size of the organization probably have to do.

Frank Kopfinger
Commerzbank AG, Research Division

But on the low-hanging fruit in P&C, what would you say out of this EUR 500 million is a realistic low-hanging fruit?

Dieter F. Wemmer
CFO & Member of Management Board

Yes. Well, that would be really disappointing when we have the same result again. And the U.S., we have already started the work of the restructuring and integration. And there is also the partial disposal to Ace closing in April. Then in Russia, the portfolio is shrinking very fast. So on this remaining policy, you can't lose EUR 180 million, I believe. And Brazil, I think we have started really to work to translate into a better business. The management team is fairly new in place, 6 to 9 months and so, we strengthen further back in the next weeks. So I think what we can do is [indiscernible].

Michael Diekmann
Chairman of Supervisory Board

No, no, Dieter, I don't want to put it to the CEO.

Operator

Our next question comes from Nick Holmes of Société Générale.

Nick Holmes
Societe Generale Cross Asset Research

Two questions, please. The first is coming back on equivalents. Thank you for clarifying that your 100% of the company action level but I think your peers are saying that they're all between 200% to 300%. And my question, I guess, is kind of why did you choose 100%? And are there other areas of Solvency II where you're different? I mean, you may be a lot more conservative in -- I don't know how you treat the surplus capital within the U.S. or something like that. I'm sure there are lots of areas for difference. And I'm sure you're very conservative in all sorts of areas. My second question is for Michael. It's again on the U.S. and the question is when I look at the EV sensitivities of the U.S. Life business, it does seem to be particularly sensitive to the macro. I mean, if you look at the credit spreads, for example, 100 bp movement is worth EUR 2.4 billion which is just massive. And you've doubled your U.S. new business value in 2014. It's nearly as big as Germany. And the question, Michael, is why do you want to write this business which is kind of -- it looks kind of high-risk but maybe, that's wrong. Maybe it's much lower risk and we're missing something?

Dieter F. Wemmer
CFO & Member of Management Board

Yes. I think Nick, I'm confused about your question because I thought I explained very well that we are -- that our base is the 200% number and not the 100% number. And that this what I also understand from some of the peers, exactly the same to what they are doing, and that looks to me as reasonable. And in the end, what I explained is we run the company due to the A.M. Best requirement. The local 350% level, that is when you want to be an A+ company and the A.M. Best, that is what they want to see. And that is exactly what we do. That means in the calculations, 350% divided by 200% is 1.75%, and so 1.75% goes then into this average calculation.

Nick Holmes
Societe Generale Cross Asset Research

So Dieter, sorry, are you saying that the -- that you are 200% of the authorized control level, the minimum level?

Dieter F. Wemmer
CFO & Member of Management Board

Yes.

Nick Holmes
Societe Generale Cross Asset Research

I mean, because your peers are definitely saying they have a coverage of a company action level. And so of the company action level, are you -- you're 100%, aren't you?

Dieter F. Wemmer
CFO & Member of Management Board

That is the corporate action level, that is exactly the 200% number and that's what...

Nick Holmes
Societe Generale Cross Asset Research

Exactly. I mean, I'm not saying it's not a strong level. Absolutely, I mean, it is as strong as 200% of 175% or however you calculate it, the authorized control level, the ACL. But my observation, this is just an observation, is that outcome your peers reporting 200% to 300%, and so there does seem to be a difference. But I think there may be lots of differences. You may be calculating capital surplus in a different way and stuff like that.

Dieter F. Wemmer
CFO & Member of Management Board

As a ratio, they are reporting this but look, as far as I know, when you are in the A.M. Best discussion locally, the 350% of the any, I think, base requirement is actually what most companies are doing, that is the stand-up number you find for most large U.S. companies and I'm also used to since the last 20 years, so I think it is pretty much the same everywhere. How you translate it then into a ratio here into the calculation, I can't tell you what our peers are doing. I only tell you that in our calculation, the ratio is the 1.75%.

Nick Holmes
Societe Generale Cross Asset Research

Okay, and I'll...

Dieter F. Wemmer
CFO & Member of Management Board

And maybe you'll as the question, what ratio is actually added in this weighting average and then you get a good, stable [indiscernible]

Nick Holmes
Societe Generale Cross Asset Research

Okay. And just 1 final point on that, given that there are lots of companies that are reporting different definitions here, different ratios. When do you think we're going to get harmonization on equivalents?

Dieter F. Wemmer

CFO & Member of Management Board

When it is written into the delegated x, and that is an April activity of the Brussels Parliament.

Nick Holmes
Societe Generale Cross Asset Research

Okay. So in April, we can expect clarification?

Michael Diekmann
Chairman of Supervisory Board

So, maybe I can kick in with the FIA business. I think we are a little bit traumatized from the old VA experience here. And you're right, we do have a sensitivity to market movements in this business. Now if I compare and I'm on Page A62, you know the KPIs for the new business margin in this business, we have a 3.4% and internal rate of return, we have a 12.3%. So at current levels, the business is great. So what do we do if the sentiment changes? We want to remind you there's a very low guarantee level because basically what we do, we offer a protection of principle. So if you sort of translate that, that’s a 0.3% guarantee. And then we have a lot of management levers where we can adjust for that on -- I think it's an annual level, but maybe even more frequently. We have a much better expense efficiency and our Allianz Life business now because of this scale. And we do have a dynamic hedging process in place that helps us as well to manage volatilities.

Nick Holmes
Societe Generale Cross Asset Research

That's very clear. One very quick follow-up. Michael, how big do you want the U.S. to be? I mean, it's grown a lot. What's sort of growth do you envisage going forward?

Michael Diekmann
Chairman of Supervisory Board

Well, our current and obviously, that can change over time. The current message for the U.S. business is we don't want to inject capital and we want to see some dividend flows. And they have managed very well in order to stay in line. With that, we've got points in this year 250 million dividend for Minneapolis.

Oliver Schmidt
Head of Investor Relations

Do we have more questions?

Operator

Yes, we do have a number of questions. Do you wish to proceed?

Oliver Schmidt
Head of Investor Relations

We will take 1 more question, please, and then we will end the call.

Operator

Our final question comes from Paul De'Ath of RBC.

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

A couple of very hopefully quick questions. On the investment side of things, so going back to that Slide B8 and the Life Germany number, 0.7% yield required to cover the guarantees. Presumably, that is backed up by the large RFP in Germany and I wonder if you could comment on the position for any of the other entries where you got significant guarantee business because presumably, that 0.7% number would be significantly higher for those. And that's question 1. The second question, quickly, is on the increased targets for reinvestment. So you've significantly increased that midterm target to EUR 110 billion. And how have you, obviously, as part of the dividend change, you now are no longer allocating additional money to pay for that additional capital investment. And I was just wondering kind of where you see that additional capital coming from?

Maximilian Zimmerer
Former Member of Management Board

Can I start with the first question? I need to remind you, the -- at least, the pressing [ph] of the bike of [ph] the business in Germany stands alone for let's say, 40% of the overall business, and also during Germany, had very long-term guarantees and also the guarantee level in comparison to most of the other companies is the highest, which is right now 3%. Therefore, we made this calculation especially for Life Germany. In Europe, I think there is no other country which has an average similar guarantees, at least not the same duration or also, the number of 3% won't be reached by them. Now the RFPs, of this EUR 25 billion RFP, there's the lone EUR 10 billion that is the German RFP, but a lot of other countries do not have any RFPs therefore, the overall system is different. For example, you have pressure reserves in France and Italy but they are not comparable to the system of an RFP. We didn't do any calculation for other countries, only to say that. But they are also not as significant as Germany is.

Michael Diekmann
Chairman of Supervisory Board

So for example, in France, however its guaranteed 0.7%, so a reinvestment yield of 0.7% would also be okay.

Dieter F. Wemmer
CFO & Member of Management Board

True.

Oliver Schmidt
Head of Investor Relations

Okay. Yes, thanks to everybody for joining the call. We will end this call right now, 2 hours are over. But please keep in mind that we will be available for further questions next week at our analyst meetings. Thank you and goodbye to everybody.

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