S&P Capital IQ

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Allianz SE DB:ALV

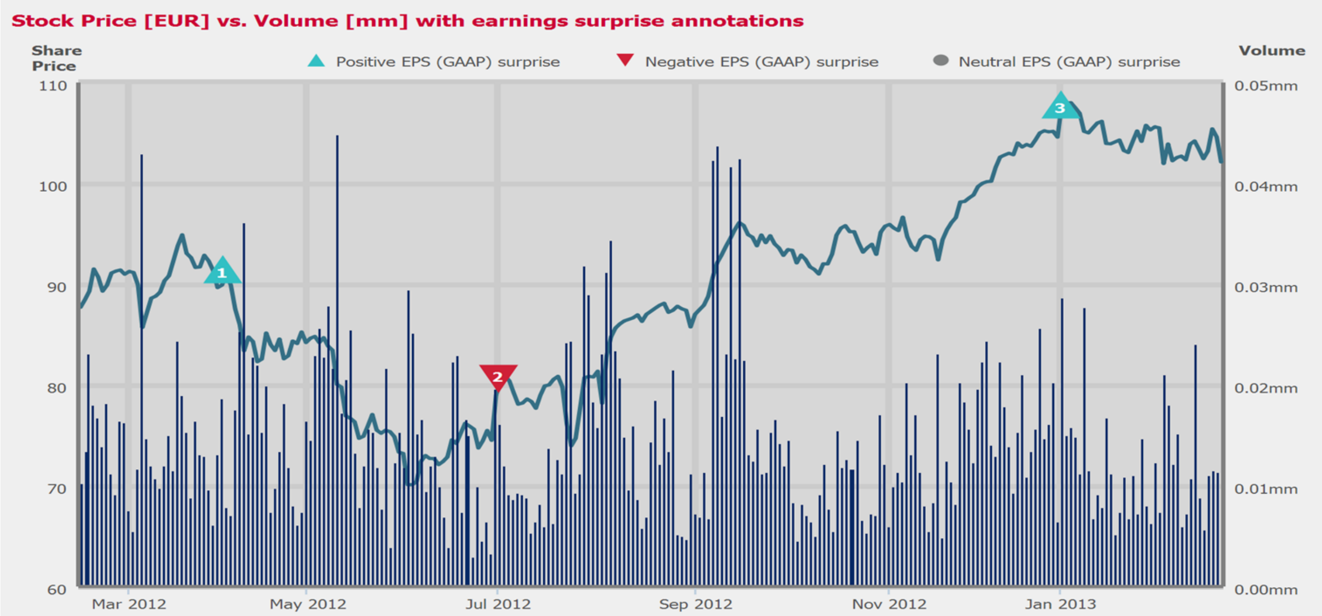
FQ1 2013 Earnings Call Transcripts

Wednesday, May 15, 2013 12:00 PM GMT

S&P Capital IQ Estimates

	-FQ1 2013-			-FQ2 2013-	-FY 2013-	-FY 2014-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS (GAAP)	3.24	3.69	▲13.54	2.75	12.09	12.82
Revenue (mm)	31001.00	32048.00	▲3.38	24236.62	100498.07	106624.07

Currency: EUR
Consensus as of May-15-2013 9:58 AM GMT



- EPS (GAAP) -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2012	3.00	3.02	▲1 0.67 %
FQ2 2012	2.70	2.68	▼2 (0.74 %)
FQ3 2012	2.81	-	-
FQ4 2012	2.55	2.66	▲3 4.31 %

Call Participants

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Presentation

Operator

Ladies and gentlemen, welcome to the Allianz conference call on the financial results for the first quarter of 2013. For your information, this conference is being recorded.

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

Oliver Schmidt
Head of Investor Relations

Yes. Thank you, Sammy. Good afternoon, everybody, from my side as well, and welcome to our conference call about the results of the first quarter 2013.

As you have noticed this morning, we have changed the structure of our presentation, so before I hand over to Dieter, let me just briefly comment on the new format.

What did we actually do? First, the main part of the presentation, it is still comprehensive, but we have slimmed down that part significantly and we have shifted our focus from a kind of a big-picture approach more to the main drivers of the business development in the quarter. The benefits of this should be obvious. We will spend less time on the presentation and gain time for the questions and answers. I'm not sure if we should do this already today. Probably because it's the first time, we should spend a little bit more time on the presentation. But in the future, it will definitely be more crisp and again, gain some time for the question session afterwards.

Now second, we have introduced a new section with comments slides, are right after the main deck. And the idea here is to give you some additional information and beef about the main developments of the quarter and to focus especially on movements that are not self-explanatory in the first part of the presentation. So the general idea, the intention of that is that those comment pages are basically a transcript of Dieter's presentation. So those of you who will not be able to follow his presentation or those who want to digest those facts flexibly, whenever they have time to do this, are -- can now do it and don't have to listen to him. The advantage, in our view, compared to a recorded presentation of those comment pages is that you can use them offline as well if you like that and that you can directly link the comments to specific topics on the slides and that should make it much faster for you to assess the information you want to get. And, of course, if you want to refer back to this in the future, you can easily do this and don't have to review a recorded interview.

Now there's a third feature you may not have discovered yet and this refers to the electronic version. If you use the electronic version of that presentation, we have linked the presentation slides to the respective comments slides. If you press at this blue button at the lower right-hand side, you will jump from the presentation slide to the comments slide; and from the comments slide, you can jump backwards to the presentation slide.

Furthermore, if you go to one of the agenda pages, if you tap on one of the titles, you will jump directly to the chapter that it's referring to.

And finally, if this is all too complicated and you're lost in this huge pile of information, any time you tap on one of our Allianz logos on the right and upper side, you will jump back to the second page, which is the main agenda page.

So we picked that specific setup because this works both on a normal computer and on an iPad. And if you still prefer the printed version, you can print it out without having to fiddle around with the settings of the Adobe software. You can just print it out and you have it all. I think it's pretty cool, so please take the time and check it out.

Finally, the backup section; in the backup section, we have all the data that we used to show in the past and have not put in the front. So no worries, you will not lose any information. It's all there in the backup. We have taken a couple of slides out, but only those who are redundant in terms of information. So, in case you're missing some slides there, please check the tables and there you should find the information.

So Dieter and I, we hope you like it and any feedback from your side is, of course, highly appreciated.

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

Dieter F. Wemmer
CFO & Member of Management Board

So thank you, Oliver, for all the explanation. So now, next time, I also know how to use it.

So let's go into the beef of the first quarter and start with it. So I'm starting on Page 3 called the group highlights. Here, we are summarizing all the special activities of the quarter, certainly, too, expansion into Turkey, strengthening our bancassurance on one hand through a 10-year arrangement with HSBC; and on the other hand, with the acquisition of Yapi Kredi where we are assuming that the transaction will be closed somewhere in summer.

S&P raised our outlook to AA stable and removed the negative. We -- right after the full year results, we placed EUR 2.1 billion of senior and reducing the coupon from 5% to 2.7%, and also, we bought a 19-year maturity on average, this is 3, which gives us very long term and low-cost financing. And then on new products, 2 very important products, which both sold very well in the first quarter. It's PIMCO's Dynamic Credit Income Fund, CEF and also, our new unit-linked product in Italy, Progetto Reddito, which is a wholesale single premium product, which had also a very high volume start in the first quarter.

So overall, the year started with a EUR 2.8 billion operating profit, really carried by all 3 segments and all regions. As we changed, throughout this presentation, 2 elements and I just wanted to remind you, the restructuring charges are now in operating profit, so that was, in 2013, EUR 94 million and therefore, the 2012 number is also restated by EUR 7 million. And then the IAS 19 adoption is, of course, mainly a balance sheet effect. But for example, in the first quarter 2012, it increased retroactively our earnings by EUR 9.4 million in operating income.

The operating profit are not only benefiting from strong operating margin, but also by very good revenue growth and the 6.6% nominal growth translate into an internal growth of 6.1%, which is a very strong quarter. And I was told by my colleagues, EUR 32 billion of revenues, it is our highest quarterly revenue number in the history of the group.

But now, coming to the number which you all are interested in, because we pay our dividend out of it; our net income increased to EUR 1.7 billion. And the quarter here is actually pretty simple. Our EUR 460 million growth, the growth in operating profit minus the tax paid on it gives the increase in the net income.

So now let's have a short look at our equity number and solvency number. Here, you see again the effects of IAS 19. That was a EUR 3.2 billion of restatement effect. Otherwise, the first quarter was in total actually pretty flat from a financial market perspective. I think the sharp drop in interest rates is much more an April event. So, therefore, in end of March, there is -- the movement to year end is very small. So therefore, the restated equity plus our net income gives very much third quarter and equity number.

Our Solvency I number also dropped, already presented in Q4 by the IAS 19 restatement. The economic solvency included always already the economic view on the pension obligations. So therefore, the increase in our available financial resources may -- drives the increase in economic solvency. And S&P, as I said, is happy with our strong balance sheet position and removed the negative outlook.

So now let's move to the first segment and here you see the -- one of the newly designed pages. I think that the selection of OEs we have picked here is much better reflecting our strategic direction. There is, on one hand, the 3 largest countries that are our 3 core markets. Then, we have the Global lines in our second box and I will talk about it in a minute. And then, in the Selected OEs section, you the countries and developments which I think are important to understand our strategic moves, but also some special highlights, which are important to explain the numbers.

So overall, the growth is actually quite, quite good. Yes, you can say 1.3% internal growth and price effect, 1.8%, so you still are losing volume. However, the only OE where we have a real drop in premium income is the U.S., with a minus of 30% and that is all our changed participation in the crop business and that was explained already with the Q4 results.

So when I now exclude the crop business, which is again technically more reinsurance than direct insurance, then Fireman's Fund actually had a premium reduction of 10%, so very active re-underwriting and kicking out businesses which we don't like. And for the group, as a whole, excluding the crop, our growth rate is 2.4%. That means we had, overall, an organic positive volume effect of plus 0.5% and the rest is then priced as indicated.

Also, let me highlight under Global lines there is a new name, Allianz Worldwide Partners. We are merging together 3 activities, which is our Assistance business, our international health business and also our Global Automotive business. At the moment, under Allianz Worldwide Partners, the figures you see here is the Assistance business and international health business, a great start into the year in growth and that is an organic growth which I assume can continue. And that is clearly showing how we play in the special lines and I consider this as a special line business, really the global scale and starts to simplify our organizations.

Good contributor in absolute terms in the growth, our 3 core markets, and we are quite, quite happy with the developments there.

I would also add here Turkey. The 44% growth you see here on the page is purely organic growth and has nothing to do with the announced acquisition. So it shows that this is a market where we feel we can really do very good business in.

And then let's move to the profitability of the P&C business because volume is not everything in this business. The combined ratio, we are very happy with the combined ratio of 94.3%. That is, indeed, a very strong start of the year. And when I just simplify all the numbers on a like-for-like basis, we see a 3 percentage point improvement in the attritional accident year loss ratio and that is also reflected here because we have a lower-than-usual run-off ratio, but we are still very happy with our overall reserve level that is not showing any weakness in the reserves.

Expense ratio, a small blip upwards, but that is actually a technical effect from 3 things. On one hand, we acquired last year the French business, Gan Eurocourtage, which has a 10-point higher expense ratio than our group average. Then the reduction of the crop business, which had only a expense ratio of around 7%, that also didn't help our average. And then we have small change; policy collection fees in Brazil, which were, in former times, excluded from the premium, are now included in the gross written premium and then show as an expense. That is a regulatory change in the Brazilian market where we are just following, but even this has a small impact on our overall expense ratio. Actually, our underlying expense ratio slightly improved year-over-year -- so the admin expenses, sorry.

So I think the underwriting result is a strong positive. And maybe what I have not mentioned on the page before explaining the loss ratio development, I should mention here that there was also a positive help through the benign winter. The costs for frozen pipes reduced by EUR 120 million split through various European countries.

And then, when we move directly to the next page, then we can actually then follow through the effects on -- for these various OEs. The number, of course, which immediately jumps out is Germany with a combined ratio of 91.4%, but that is too good to be true. And indeed, we had a commutation of a internal reinsurance contract on our accident business with saving character, called UBR in German, and that's -- that commutation influenced the combined ratio by 3.5 percentage points. So on a fair presentation basis, the combined ratio was 94.9%. I must say still a great start of the year and 95% is our midterm target for Germany. And that one is still batting on a lower expense ratio, which we are all looking forward to see then in 2014. So therefore, the combined ratio in Germany had really a strong start.

I did not mention our NatCat cost, so we had 0.7% in the combined ratio was coming from NatCat. That is actually boiling down to 1 single event, which impacted the numbers by EUR 70 million. That is Australian flood, and you see the impact under Australia and also AGCS because some of our large corporate customers have also losses with their Australian subsidiaries.

I would also like to point out here 2 of the smaller entities, U.S. with a 101.5% combined ratio, well on track on the recovery, slightly ahead of our internal plans and I think on a good way; and also, Turkey have not only a great growth rate, mainly coming from actually motor business. That was much driven by rate increases. Therefore the 92% combined ratio is actually a very good proof point of our pricing strategies in the market and I'm looking forward to see more good news from this market as well.

The investment income in the P&C business, a drop of 9%; that is quite a sharp drop over 12 months, but I would highlight here 2 special effects. On one hand, we did de-risk our investment portfolios in Spain and Italy in 2012. That means we sold during the year government bonds that did cost us, on a like-for-like basis, EUR 12 million of investment income. And also, we had, linked to the German accident business with savings, we had a one-off additional charge to increase the policyholder benefits, which drives the net harvesting number up to minus EUR 41 million instead of the minus EUR 22 million of the year before.

Current yield, you see that on reinvestment yield, we are losing 30 basis points compared to the year before and duration has slightly lengthened. On the liability side, that is very much stemming from the acquisition, Mensura, we did in the last September in Belgium, which is all long-tail workers' accident business. And on the asset side, that came along with this, that also supported the lengthening of the asset duration, but also our reinvestment strategy at the moment is to go slightly longer also on the P&C business, also to keep the reinvestment yield at a reasonable level.

So now let's move to the next highlight; our second segment, the Life business. I think it as a great recovery on revenue and new business growth, 15%. New business growth measured here in PVNBP, present value of new business premium, resulting into a total revenue growth of 8.3% nominal. And when you correct for currency, it was 8.5% growth. And the main growth contributors are Germany, France, Italy. But also, we should mention that actually Asia Pacific is certainly starting into a good direction as we have also here started last year our distribution arrangement with HSBC in quite a number of Southeast Asian data in China. And that collaboration and strategic partnership has still to grow day-by-day on operation and we are still creating new products for this partnership, so that has more value and volume to come.

Benelux had already last year acquired a good growth track record and we continue.

So now what did drive the good growth success in Germany, France and Italy? Germany, mainly coming from 2 very large corporate contracts close to EUR 500 million premium. France has continued story of investment-oriented products booked and sold in Luxembourg and then sold with our French organization and several smaller banks in France. And Italy is what I mentioned already in the beginning, a new unit-linked product, which sells very well to our own financial advisor network, but also, we see a good recovery of the banking channel. Actually, when we look at the growth numbers in Italy, I would say 2/3 of the growth is our financial advisor network and 1/3 of the growth comes through improved efforts with our partner, UniCredito. Everybody likes our new unit-linked product, and therefore, in the new business, unit-linked makes 68% and that is a great revitalization of our unit-linked activities in Italy.

The U.S. has a decline in premium. I should also comment on the decline is mainly in the fixed index annuity business. Yes, year-on-year also VA is down, but we changed the product generation in the third quarter 2012 and actually, when we look at the development of the new product generation, fourth quarter was better than third quarter and now Q1 is substantially better than Q4. So the VA product is really getting more volume. And actually, what is also fine, it has a new business margin of 2%, which shows a bit that VA has, at the moment, a much better market outlook and maybe for the one who followed ING U.S. IPO story, that seems to confirm that the VA market is growing and dynamic in the U.S. again and actually at very reasonable profit margins.

So if we move to the operating profit. So you -- we are now focusing very much on the profits by source analysis. I think that EUR 30 million profit growth is a very strong result because last year, the first quarter had a heavy positive influence from realized gains and EUR 825 million last year was already characterized as a strong quarter, so additional EUR 30 million is a very fine outcome for the beginning of the year.

The number which clearly jumps out is the EUR 169 million reduction in investment margin, which, compared to 2012, makes about a 20% reduction. So what is the nature of this reduction? EUR 157 million out of this reduction is linked to our U.S. Life business, and therefore, it cannot be actually described as a reduction in investment margin as such because it is a lot of volatility. So I think the simplest way to look at it, I would say the EUR 157 million is roughly EUR 60 million swing in hedge results. We had last year an outperformance in the hedge results and this year an underperformance. And even if we manage and hedge our business very well, there are still a few points, which we don't hedge. For example, volatility, so [indiscernible] is something which by definition don't hedge. That only costs money and in the long run, you cannot earn anything with it. And additionally, there is a base risk still there and in some quarters you get a positive number out of it; and some quarters, negative. For the fixed index annuity business, actually it doesn't matter because you adjust this over the year through the policyholder payout and allocations. Therefore, it is very much a quarterly measurement, which is hard to interpret for the rest of the year and we are absolutely not worried about it. So that is 1/2 of the reduction.

The other 1/2 is the complexity of the U.S. GAAP accounting. We show the hedges, of course, at fair value where the liabilities are following the rules of U.S. GAAP. That is mainly here what is described as a piece 3 1 [ph] and that doesn't allow for a perfect match between the asset and liability development. So you and also us, we have to list this as accounting noise. Partially, it's then offset by the way the DAC is being amortized. So the EUR 90 million plus on the DAC number gives already an evidence that actually the profit margin accounting-wise was too low in the U.S., therefore, the amortization of the DAC is more deferred into the future, so that is -- despite all transparency, it's why here that is still probably sticking to a very complex situation.

We had slightly lower acquisition costs in total. And therefore, the expense side looks a little bit better. The EUR 30 million plus in the technical margin is very much linked to a recovery of the loss ratio of our medical business in France, which had not a good start back in 2012.

So and now, let's move on to a closer look to the business volumes and profitability. You can say that actually a 1.8% margin and only a drop by 10 basis points compared to a year ago is actually, in light of the movement of the interest rates over the last 12 months, a great outcome. That is true, but still I think we can do better when we work harder on our product mix.

Germany, actually the yield question is not influencing the new business margin. I think we managed, actually through the reduction of the policyholder participation, our net margin quite well. But the 2 big contracts we took on board have a lower-than-average profitability and that certainly is part of the 30 basis points reduction.

France, we are still too much on the traditional French products and we need to work harder on the product mix to get the profit margin back on track. Otherwise, that is here the full-fledged impact in France of the reduction of the swap curve year-over-year.

In Italy, the shift to unit linked pays off and we actually can keep margin very well.

And the U.S. is, I think, proving what I have already mentioned, that the VA business is much more profitable in current market environment than it used to be.

And with this one, I would move to the next page summarizing how the total investment margin is holding up. All the return figures you see here are quarterly returns. So a current yield of 1.0% for the first quarter translates into a current yield, compared to our policyholder reserves where we have to pay the guarantees, of 1.2%. We had a smaller amount of realized gains this quarter than the year before, therefore, only 10 basis points coming from realized gains. And guarantees, on average, are going down. That is a part of our strategy and has been explained in previous quarter.

So now let's look at the total margin. 0.2%. Actually, the next digit is another 2 so 22 basis points is our margin for the quarter. So when I multiply it by 4, it's 88 basis points. And as we explained with our outlook numbers, our normal full year level is 75 basis points. So the quarter is slightly ahead our average level here.

And reinvestment yields, with 3.1%, I think also reasonably holding up. I think we are doing still a fairly good job on finding investments with reasonable yields, without taking too much risk and that helps overall.

Duration is very much unchanged in our investment portfolio as the jump, compared to a year before, was all actions taken place already in 2012. No moves in 2013.

The MCEV slide, well, actually, it's compared what we are used to since the beginning of the financial crisis, almost no visible movements. And that is very much reflecting that the first quarter, also the interest rate curves were pretty flat.

So now let's move to Asset Management business. So how did the story continue? You all asked with the full year results, can it continue another quarter? And the answer is definitely yes. We had inflows of EUR 42.6 billion, EUR 40 billion was PIMCO, but also actually, the EUR 1.4 billion with Allianz Global Investors is a very good outcome.

So total assets under management are EUR 1.9 trillion, of which EUR 1.5 trillion are third-party money.

So PIMCO inflows are mainly U.S., but also Europe. We have -- there was a lot of discussion of asset rotation and outflows potentially from the bond sector. But when you actually follow the details of the asset rotation, then mainly the money market funds are suffering and showing a lot of outflows, where equity markets and also fixed income markets had a lot of inflows.

I think a very good explanation of what is happening are 2 facts. On one hand, in the U.S. market, you actually see that the inflows are very much concentrated with the profit layers in the market. And the 3 companies, which are sharing most of the inflows in the market were, last year, PIMCO, Fidelity and Vanguard. And again, in the first quarter of 2013, it was PIMCO, Vanguard and Fidelity. So these 3 are really getting a bigger market share in the overall inflows, investors and also advisors looking at the track records.

PIMCO is showing an outstanding performance track record, with more than 90% outperformance whether you look at 1-year, 3-year or 5-year tables. And this combined actually with a very active and dynamic product policy or how the PIMCO management would call it solution strategy, where there are besides their core products, which actually, by the way, had in the first quarter EUR 3 billion outflows, we are actually moving the money more to this, what we call, solution-oriented product and that is a wide range of product strategies like unconstrained bond income, emerging market, investment grade credit and also some equity funds. And that drives -- actually this dynamic offering of new solutions and change products drives it very much.

And when we move to the next pages, where we are indicating also our margin on the third-party business, that gives actually another insight in the product strategy because the average margin of our new business sold in the first quarter was 63 basis points. That is a substantially higher margin than the average. So that helped us to drive up the average from EUR 42.6 billion to EUR 43.5 billion, almost 1 basis point up and 1 basis point on EUR 1.5 trillion. It's a lot of money, which we are happy to book in our accounts.

That certainly is a bit reduced by Allianz Global Investors. Here we saw a rotation; we lost some retail funds and compensated more with institutional business. That explains here a bit a reduction on average. But overall, we have 1 basis point more, and we are now looking what does it mean for the operating profit. Well, high inflows, higher average assets under management, higher average margin, and expenses which are growing at a lower pace clearly helps to improve the cost-income ratio. So we are now at 52.9 % average about our 2 main asset managers and that's all resulted in a 48% growth of the profit, which is a fantastic start of the year.

In this number included is also our performance fees of around EUR 200 million. That is, of course, not a periodic income. Again, we were harvesting on private equity funds, which was set up out of the subprime crisis and where now the carried interest is crystalized as revenues.

Last but not least, the Corporate segment; also, a nice improvement of EUR 35 million, so EUR 35 million less expenses in previous quarters. And this number includes most of our restructuring charge for the first quarter. EUR 88 million restructuring charge has been booked in the banking segment. That is linked to the closing of Allianz Bank in Germany. And there will be another -- we have EUR 16 million, EUR 17 million come towards the bank restructuring in the second and third quarter. So, in total, a little bit more than EUR 100 million.

So what helped to create this additional income? Well, I think the main contributor was actually the input payment on our silent participation with Commerzbank. That is, in the 4 years we are holding the silent participation, the first time that we received an interest payment and we could only book it after Commerzbank had the board's decision on it and it got published. Therefore, it is not the usual pro rata accounting for interest payments you have on normal bonds. I would say that this is here a very special bond and we treat it as a special bond.

And now let's just summarize the link between operating profit and net income. As already said before, EUR 460 million more operating profit minus 33% tax rate gives pretty much the answer to the increase of shareholders' net income.

Yes, there are quite some movements in the various positions, realized gains, impairments and also income from financial assets and liabilities carried at fair value. That included last year EUR 100 million plus from the Hartford warrants. Of course, that is 0 this year. And therefore, I think actually the one-offs are less this quarter than compared to 12 months ago.

And the tax rate, 33%; that is actually a more -- hopefully a normal level compared to last year, we had also already in the first quarter some special one-offs.

So let me summarize. Actually, a great story on the revenue side, well, certainly strongly carried by Asset Management, but also supported by Life. P&C has still room to catch up. Operating profit growth 20%, yielding a EUR 2.8 billion operating profit for the quarter is a really strong start. And also, I think, as promised, we work hard also on improving the net income and that is then in line with operating profit growth.

So the natural question, why didn't you change the outlook number? Well, it is a great start of the year and certainly, the quarter multiplied by 4 gives a fantastic number. And I would be, as CFO, really delighted to present this in 3 quarters. But I think we are really living in a very volatile world.

There is, on one hand, the usual weather event and other forms of natural catastrophes we just don't have under control, and we are the market leader in P&C and cannot ignore this volatility. And on the other hand, yes, there is a very bullish stock market at the moment and it seems that the euro crisis is fully under control. But I think that is a quietness which I'm not fully trusting and also the rest of our management team, and therefore, we feel that we have really to work harder to justify any changes to the outlook and that is what we promise as management team. We continue to work hard on the success of the company for the policyholders, the employees, but also the shareholders.
And with this one, I would open to questions.

Question and Answer

Operator

[Operator Instructions] We will take our first question from Thomas Seidl from Sanford Bernstein.

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

Two questions, as always. Number one, I start with the investment side. I think we noticed a sharp drop on the current year at 70 bps in P&C, 40 bps in Life and Health, and also 30 bps lower reinvestment grade. And I wonder how you think about this going forward for the next 1, 2 years? What is Allianz doing to stop this sharp drop? And what are your expectations around this current deal development for the next 1, 2 years? And secondly, on the Life side, I wondered if you could give us a bit more color on what exactly is sort of the issue on the fixed annuity book over there and what it means for the further performance of the interest portfolio, rather than the new business of this segment?

Dieter F. Wemmer
CFO & Member of Management Board

Thomas, thank you very much for your question. Actually, the yield reduction, I think, we are very much on track with our planned investment income. Certainly, there are always, on the Life side, movements as I explained, so this special situation in the U.S., but also the amount of realized gains. But when you just look at the run rate, I think that it's holding up quite well and our forecast was that we would lose in -- on the Life side more 10, 12 basis points in the year; and on the P&C side, more around 20 basis points. And what we can do about it, well, in the end, we can write letters to the various central bankers because that is now the concerted action of Japan, U.S. and EZB who continue to drive yields down. And I wouldn't see a reversal of this activity in the near future. Certainly, what we can do is I think we have certainly a capability to generate a bit more alpha than the average because we have access to big-ticket items where probably there is less competition. And also, I think we have really a lot of in-house expertise to manage fixed income as we proved with the success story of PIMCO day-by-day. But otherwise, we have also we cannot walk on water and have to face how reality is moving and we will certainly not increase the risk taking to an unreasonable level just to make up for yield. That has to be fully understood. We have more to work on the business side; that means combined ratio, yes, in a good direction. But combined ratio has to be #1 focus on the P&C side. And on the Life side, I think we are clearly working also on product and the product mix, which is less dependent on yield performance. Your specific question on the U.S. business, we are actually expecting -- of this hedge inefficiency for the fixed indexed annuity business, we expect a diversion towards 0 if you calculate the average over a couple of years, so that is actually not making us nervous about the performance of the back book. And the new business volume drop in the fixed indexed annuity in the U.S., yes, we are keeping our new business margin up and we are not giving in with the new business margin. And we are certainly also not competing with an Oppenheimer fund who is making then the returns by investing in spots club. I don't think that this is in line with our very conservative asset liability matching strategy.

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

Okay. Just a brief follow-up on the 10, 12 and 20 basis points you just mentioned. So you would say that the drop we have seen in this quarter is an unusual sharp one and we should see a softer drop going forward then?

Dieter F. Wemmer
CFO & Member of Management Board

Yes. That plays out over the time. It's 20 -- maybe on the P&C side, 20 is probably at the lower end. It could be 25 basis points. I would not see much more, but it will continue. And as the P&C business has a shorter duration as the Life business, as you can see on the slide, the effects have to play in much faster on the Life side with 8-year duration. That means in the end, you have roughly 10 -- a bit more than 10% reinvestment per year. It moves much slower. And you can buy at the long end of the curve, which still give you a little bit more returns.

Operator

We will now take our next question from Michael Huttner from JP Morgan.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

I love your new presentation. I'm just wondering if investors will ask the -- our investments reports to look like that, I don't know. On the reserving, so reserve leases was 1 -- was very low, 1.4. Are there any special movements, which we should look out for? I remember when I was looking at the U.S. reserves that there was the possibility that there would be more added, particularly to workers' comp during the course of 2013, in addition to the EUR 350 million you did last year. So that's the question: are you going to add more? And then the other question is Asset Management fees. So you explained the fees, excluding the performance fees, were -- had improved Q1 '13 over Q1 '12, thanks to these new high-margin products. If I look, however, Q1 2013 versus Q4 2012, so consecutive quarters, the Asset Management fee, excluding performance fees, went from EUR 1,618 million, so EUR 1.6 billion, to EUR 1,621 million, also EUR 1.6 billion. The average assets is up a little bit. So here, there's actually a little bit of a decline. Why is this? And which is the -- what's the message, the main message I should take, EUR 1,621 million is sustainable or there's a kind of -- in these specialized products, there's a little bit of resistance? Those are maybe my 2 questions.

Dieter F. Wemmer
CFO & Member of Management Board

Okay, Michael. Thank you very much for the question on the run-off result. I should have mentioned this. When I said that the Fireman's Fund is very much on track, I was also saying there is no special event on the reserves. So the total prior-year movements at Fireman's Fund is EUR 1 million roughly. So nothing very special. And why is the one-off result overall only 1.4 percentage points; very simple because we had some delays in actuarial reviews and that it's more -- well, actually more an operational logistical topics than actually a number topic. I think for the year end, the usual expected historical average of run-off result is very much what I would expect overall. On the Asset Management fee, you probably got me on the wrong foot because I thought last year, our average fee number was lower and you are comparing it Q4 stand-alone.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

Yes, that's a little bit -- I know it's a bit nitpicking. But yes, if you could have any insights, but…

Dieter F. Wemmer
CFO & Member of Management Board

I don't -- actually -- because I see actually -- when I look at the numbers, I see more the trends are further going up. Well, actually we had in Q1, caused by the launch of this new high-flying product, the CEF fund, which I mentioned on the first page, that it cost us actually 0.8 basis points in Q1. Maybe that is the missing element in your equation.

Operator

We will now take our next question from Marc Thiele from Mediobanca.

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

My first question is actually coming back to Fireman's Fund and I'm interested in the timing or the timing of further improvement. Do you there is scope that towards the end of the year, the combined ratio could actually drop below the 100% line? And then, I'm also curious when will the next reserve review take place? Is it the third quarter or the fourth quarter? My second question is then related to the Life operating result. Should we continue to look at your full year guidance with a quarterly run rate of EUR 700 million to EUR 750 million? I mentioned -- you mentioned that the DAC swing that we've seen, but even if I strip that out, there seem to be is still a number of items outperforming the normal levels. Is it related to better-than-expected technical margins or are the loadings performing well or should I strip out the entire DAC swing? I was wondering if you could help with getting a better grip on the drivers for the Life result at normal levels. And then, the last question is on Slide 25, you mentioned Italian direct business growth. You probably benefited from the boost on the back of the regulatory changes last year. Can you provide numbers related to gross written premiums and combined ratio just for the Italian direct business?

Dieter F. Wemmer
CFO & Member of Management Board

Marc, thank you very much for the question. When I -- I start with Fireman's Fund. The Fireman's Fund reserve review is always taking place in the third quarter. But we are, of course, following very closely month-by-month the expected developments of all the critical lines which created the reserve increases last year. So therefore, a reserve review is much more a fundamental review of all the assumption that is not the operational follow-through. So from this one, I think Fireman's Fund is doing okay. And the combined ratio, well, there are 2 answers to it. On one hand, we are re-underwriting the portfolio. We are increasing rates and the rate increases are 6%, 7%, 8% depending on the line of business. So that should earn in and therefore, the underlying combined ratio should improve quarter-by-quarter. But, of course, always is open as actually the cat season. And I would see 2 parts of the cat season; there is the usual hurricane everybody has in mind; and actually, when you look at the current pictures on TV with the wild fires in California, actually wild fires already in May is very early. Usually, the wild fires in California start in September; that is the normal season. And that shows that it is very dry and very brown and a lot of bushes to burn from previous periods. So therefore, I think that part of the result we have always to wait how it plays out. The Life number, well, I tried to explain that most of the DAC movement is actually linked to this compression of the investment margin in the U.S. but it's the amortization pattern under the FASB rules. So therefore, I think that part you can probably very much take out and I would on both sides. So therefore, I would not say that that's a positive change in DAC is really changing the run rate of the quarter. What is a normal level? Well, the normal level is as we are not changing our outlook is what we said in the outlook. I would say the quarter started better than the outlook and that is the 88 point -- 88 basis points margin compared to the 75 basis points margin in the outlook average. You can ask me a lot, but I will not change the outlook. Direct business, ah yes, sorry, direct business is a great growth story. We had -- for all direct business globally, we had a 12% growth. Italy had a 16% growth in Q1, and as of yesterday, we had 980,000 policies written in Genialloyd and we are currently growing by 2,000 policies per day. So that means probably in 11 days from now, we will reach the 1 million policy level. And combined ratio at year end, Genialloyd was in the low 90s, I think 91% or 92%. And Italy, as a whole, has pretty much the same combined ratio as last year. I don't know exactly the number, but I'm not expecting any change. It's actually -- yes, here I get a note, it is still 92% combined ratio.

Operator

We will take our next question from Farooq Hanif from Citigroup.

Farooq Hanif
Citigroup Inc, Research Division

Just wanted to know on the combined ratio, you've given us quite a lot of information about one-offs in Germany. Obviously, we can see the NatCat performance. You've given quite bullish guidance on Fireman's Fund. Just wondering if there is anything else that we need to take into account? So, for example, non-weather-related additional kind of behavior, so, for example, people just claiming less on motor because they're driving less. Is there anything else that you could point to in your combined ratio that is a positive that we may just strip out going forward? Secondly, on your S&P capital basis, has there been a material change in how you would view your surplus capital of that basis and could you give us a number?

Dieter F. Wemmer

CFO & Member of Management Board

Combined ratio, certainly, I mentioned that we had a frequency reduction on household claims; that was the frozen pipes. And there is a continued frequency reduction in some of the European markets on motor. Italy, for example, had another 3 points of reduction in motor frequency in Q1 compared to last year. Spain, also, I think is still benefiting from frequency. So that points I think should be all considered. The S&P question, we still have more or less a similar surplus as we had at year end. And I would say we are nicely above the AA level.

Farooq Hanif
Citigroup Inc, Research Division

Could you remind us of the number again, the capital number?

Dieter F. Wemmer
CFO & Member of Management Board

Well, there is quite some debate also. I think S&P is recognizing part of our internal model. Therefore, the S&P level is certainly relaxing, but I think it is a tradition that we keep some secrets.

Operator

We will take our next question from Atanasio Pantarrotas from Kepler.

Atanasio Pantarrotas
CA Cheuvreux, Research Division

I have 2 questions. First of all, on the Asset Management business, I saw that if we look at the regular fees income, so that's quoted in performance fees, this item grew in the first quarter by 23%. However, also the G&A cost and -- grew in the same level and commission expenses grew even more at 37%. You mentioned before that there was some cost for the launching of new product. I would like to have a guidance regarding the G&A cost growth for this year in the Asset Management business, if possible. The second question is the asset allocation. I saw that there was a slight decrease in the equity weight in the P&C business, which is now at around EUR 4 billion out of the EUR 108 billion totally investment in P&C. I just wonder why you do not take any slightly more risk on the equity component given that the corporate bonds are offering a very low yield, while equity valuation could be more interesting given your good capital position especially compared to your peers.

Dieter F. Wemmer
CFO & Member of Management Board

Yes. Thank you very much. I think the equity investments we are discussing quite a lot. And certainly, we would also consider to increase the equity participation. We are not yet sure how the markets are continuing and what is a good timing for purchasing. So far, I think we have, by now, increased some but not in March. That was spent more in April. Well, I think, overall, we expect that our cost-income ratio in the Asset Management business stay well below the range of 60% and I think therefore, the current levels might be very low with 52%, but I think we are on a good track to stay close to it.

Operator

We will now take our next question from Gordon Aitken from RBC.

Gordon Aitken
RBC Capital Markets, LLC, Research Division

A couple of questions, please. First on duration, so the normalized value assets are longer than liabilities and that duration gap has grown from 1 year to 1.3 years. On the Life side, it's quite the reverse. The assets are shorter than the liabilities and you certainly squeezed that gap in. So why are you running assets longer in the Life side but shorter on the nonlife side? And you mentioned you are increasing duration. But obviously, this is not free money and these yields are higher for a reason. So I'm wondering are you taking more risk here because you don't feel you can, in a way, give it back to shareholders in the form of dividend? You talked a bit about U.S. bonds have spiked recently and how that affects your balance sheet sensitivities. So I know that's a lot, but that's the first question. And the second question is on PIMCO. And DD pension funds and insurance companies have been very large buyers of fixed income over equities. I mean there's lots of reasons why that's the case for pension funds and insurance companies. I mean do these trends continue? Do pension funds and insurance companies continue to buy bonds and sell equities? And if you can maybe give us an update on your proportion of your assets, which are being run for pension funds and insurance companies?

Dieter F. Wemmer
CFO & Member of Management Board

Well, let me start with the later question. Yes, I think the trend continues. When you look at the U.S. life insurance industry, that it's almost all fixed income and mainly on the corporate bonds sector, I think and also on the pension companies where -- and we try to do the same, which also goes in the direction of your duration question. Certainly, we would like to lengthen further the duration of our Life book. But the options to do this are very limited. We are trying hard to find large infrastructure projects to do so and a good example is what we bought in March; that is the gas pipeline in Czech Republic. And we did also a couple of other infrastructure projects to help lengthening our duration. But when you look in Europe, actually the European markets are not very attractive for an investor to buy long bonds because the options are, well, you can go in the banking sector. Well, maybe when they have all reached their Tier 1 levels under Basel III, then that might be a good place to be. But let's wait and see. And then you have France and Italy who are issuing long bonds. Yes, Austria is issuing long bonds, but I think we have probably already all long bonds Austria ever issued. So there is not a lot of optionality. Therefore, we have really -- because we do a very appropriate risk management, and therefore, it is not so trivial to find the long bonds in Europe. On the P&C side, yes, we are taking good credits. And I think we have great resources for credit research on the fixed income side and the lengthening in the P&C book comes mainly from the fact that the new investments are longer [indiscernible] expiring. And when you I talk about [indiscernible] the weight, you have to remember that after a year, your old portfolio gets 1 year older. So duration comes automatically down for all of the portfolio. So that means when you want to lengthen on the P&C side, you have already to buy a 7- to 9-year bond actually to show an effect on the overall lengthening of the portfolio. And that is what we have done in the first quarter to get reasonable yields without having a high risk. On the other hand, we have sufficient resources on the short and so we also have quite good amounts in cash. So any day-to-day volatility on the claim side, even a big event, that is not creating any issues for us. Did I -- ah well, PIMCO, I think the market, it's continued to go into the fixed income, yes, even if our top investor bill [ph] was said beginning of the week that he sees an end to the bond rally, that only means that it stops going in 1 direction and that is probably true. We see a lot of sidewards movement in the interest rate curves at the moment. That is beginning of the year and now, we are the 20 basis points up and then, a month ago, we were 20 basis points down. And actually, all this sideward movements is great for a company like PIMCO because they are generating their outperformance mainly on alpha and tactical decisions, and therefore, it is an ideal market for PIMCO's strategy.

Gordon Aitken
RBC Capital Markets, LLC, Research Division

And have you got a number for the proportion of the third-party assets you are running for pension funds and insurance companies?

Dieter F. Wemmer
CFO & Member of Management Board

That one I don't know because we are not producing any internal statistics by industry. So I cannot answer this. And actually, what is a hedge fund when we do something with Siemens, should we show this under general industry or under pension fund? That is probably a tricky question of allocating the customer groups. So that's why -- we will -- when I find [ph] a good answer, you will get a call.

Operator

We will take our next question from Andy Broadfield from Barclays.

Andrew Broadfield
Barclays PLC, Research Division

Two questions, please. First on Turkey, I noticed your combined ratio in Turkey was extraordinarily good in the first quarter. I think I've got 92% combined ratio or something like that. So I just wanted to get your thoughts given the -- some of your peers are talking about 40% rate increases, that's 4-0 percent rate increases in Turkey. You're about to double the size of your portfolio there and yet, you're already writing at quite profitable levels. What does that mean for you? How do you intend to sort of tackle that given there'll be some sort of integration challenges in the interim? That's number one. Number two, if I may, on the nonoperating items, I think in the past, you sort of indicated EUR 1 billion there or thereabouts or at least you or your predecessor did of nonoperating items. Is that still a sort of sensible number to be thinking about below the line? In nonoperating items please?

Dieter F. Wemmer
CFO & Member of Management Board

Yes. And, Andy, thank you very much. Yes, I can confirm the rate increases in Turkey are in the range of 40%, but that is mainly MTPL. The MOD part, it's not showing the same level of rate increases. Therefore, depending on the mix between MOD and third-party liability business, you see then the impact on the combined ratio. But we had certainly a better starting point than most of our competitors. Most of our competitors were writing clearly north of 100 and had also, at least from our analysis, certainly a light start on their reserves. So therefore, they are in catch-up mode. Our reserve level in Turkey is very fine. And therefore, our rate increases are actually falling through in the overall combined ratio improvement. When we combine it with the Yapi Kredi insurance company, we are clearly expecting that we can improve our expense ratio. We are expecting roughly that we can save 24% of the operating expenses -- of the combined operating expenses of the 2 insurance companies. So that should really create then a powerhouse in pricing, customer service and should help us to stick with the very good level in Turkey. And what maybe I should add here, Turkey is a market with a great growth outlook. But the Turkish insurance industry has, in the past 5 or 10 years, not earned enough profit actually to keep their solvency margin in pace with the required increased due to volume increase. So therefore, the whole industry needs at least to earn this much that they can grow capital every year equal to premium growth. And in this market, as we are outperforming in profitability, that should give us, also as a market leader, this additional edge to generate long-term profits in a very exciting market. So your nonoperating items, yes, we are still looking at the same target outlook, so around $1.1 billion. However, I think we are seeing opportunities for improvement mainly by reinvestment of maturing debt. You probably have noticed we called last week our perpetual retail from the U.S. market $2 billion 8.375% coupon so that was actually quite a heavy interest expense bill every year and we certainly hope that we can do this cheaper in the future.

Operator

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

Andrew James Ritchie
Autonomous Research LLP

Just first question, could you just give us a bit more detail on the popularity of the new product, the new unit-linked product in Italy? What special features it has or is this just a function of the distribution channel in particular doing well? Related to that, there's been strong sales in Italy and France, although I noticed that net flows are just above breakeven. So is there still quite a lot of churn going on or surrenders on the in-force book in those countries? Second question, I just wanted to get a bit more clarity on the trajectory of the underlying accident year attritional loss ratio from this point. It improved 3 points year-on-year. It looks to be about 2/3 of that is frequency and 1/3 is price effect. On the frequency, I think you're saying you don't really know. It's partly to do with economic outlook. On the price effect, maybe you can give us a bit more guidance there? Do you think the price of it will wane a bit as we go through the year? It looks like in your commentary on pricing Germany is a bit better, but the rest of the Europe isn't really changing, we're even getting slightly worse. Just some more clarity on where you think the underlying loss ratio can go mostly from the price effect would be useful.

Dieter F. Wemmer
CFO & Member of Management Board

Okay. Andrew, thanks very much. Well, the unit-linked product in Italy is certainly giving a good portfolio of underlying funds, which have a great track record. And we have, so far, sold 468 million. And yes, the net inflows are more neutral, but I think we are losing more on the side of guaranteed traditional business and the new money comes in for unit-linked, which has not only a better margin, also it helps us to shrink the guaranteed balance sheet a little bit. So therefore, we are very happy with the product. I think if I'm not completely wrong, the customer has a little tax advantage on unit-linked business without any guarantees. And there is no longevity risk included because that is a whole life product. And certainly, it is the distribution effort. I think UniCredito has done a lot to mobilize its branch offices to be more excited about selling insurance products. And I'm very grateful that the collaboration with this UniCredito is actually doing really well and going in the right direction. So your attrition loss ratio question. Yes, certainly, in the first quarter, probably if we can see 2/3 pricing effect, 1/3 is probably a fair judgment. I think pricing in Germany is in motor fairly strong and I'm hoping it continues like this for the rest of the year. When I look in particular, when -- let's do it by line of business. So in the retail business, we have seen in the first quarter price effect, 2.5% across the whole book; motor, 2.5%; actually, property doing much better, there is quite a lot of catch-up on homeowners because there was a lot of weather and cat-related claims in the last 2 years, as you remember; liability, nothing moving in retail; and other, slightly up. Commercial, we are in total up less than 2% and here are the main drivers: the U.S. market and Australia, also France, the other markets are not this strong. And I would -- the markets, U.S., Australia and France, I think that will continue. And I'm actually quite positive that we can continue to work on this effect. But when you look at our Italian story, we are in Italy in combined ratio now about -- well, at least at year end, we were 10 points ahead of most of our competitors. And that is not driven by the fact that we are 10% more expensive than the others. So I would really like to stress that actually the quality of the pricing models is another very important factor and you are not automatically the most expensive when you have the better combined ratio. That would simplify our work too strongly.

Andrew James Ritchie
Autonomous Research LLP

So, on the trajectory of pricing, though, in Germany, you think stays pretty healthy. But I guess you were suggesting there's scope to reduce prices in markets like Italy.

Dieter F. Wemmer
CFO & Member of Management Board

In Italy, there is certainly, I think, at the moment, no room for price increases and that would also be unreasonable. Look, we have a combined ratio of mid-80s. That is a pretty nice margin. When we can close a book a couple of percent, that makes very good money. So that is probably one of the last markets where we would further focus on margin. There is -- I think with Germany, certainly we have, as I said, with the -- the like-on-like combined ratio in Germany is 95%. We still have promised in our 2014 plan to reduce expense ratio by more than 1 point. And that is what the management team has to achieve. The loss ratio, when it stays where it currently is, that would be a fine outcome.

Operator

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

Nick Holmes
Societe Generale Cross Asset Research

Two question, please. The first one is could you remind us whether the economic solvency ratio is calculated on an equivalent or nonequivalent basis, the U.S. operations I'm thinking? And secondly, just coming back to this U.S. hedge, wondered if you could give us a bit more color; which products does it exactly cover? It's more than just variable annuities, is it fixed as well? And then, why do you really think it's worth having this volatility in the operating result with this hedge? I mean, it's really pretty significant is it -- isn't it? And I just wondered what you're thinking is about that?

Dieter F. Wemmer
CFO & Member of Management Board

Thank you, Nick. So just to get your question on the economic solvency right, we are calculating our economic solvency completely on our internal model, so we are not using for the U.S. a local U.S. model. It is all same calculation for all entities of the group.

Nick Holmes
Societe Generale Cross Asset Research

And could I just ask would you say that you are using a Solvency II basis for variable annuities?

Dieter F. Wemmer
CFO & Member of Management Board

Yes, we use the same methodology, Solvency II-like methodology. I can only say Solvency II-like because I don't know what Solvency II is. And unfortunately, EOPA and the other guys also don't know what Solvency II is. But we would welcome very strongly when this open point would be closed that our industry can move on and we are prepared to really help whatever we can do to get solvency alive and not having it as a hangover on the industry.

Nick Holmes
Societe Generale Cross Asset Research

Sorry, just one very quick follow-up on that same question. On an equivalent basis, i.e., using the American regulations, I think you've indicated roughly what it would be in the past. Could you indicate again what the difference would be approximately, very approximately?

Dieter F. Wemmer
CFO & Member of Management Board

Well, I think then even the group solvency ratio would be higher, but I don't know what it makes on average. Well, look, I know we are highly capitalized in the U.S. I think our NAIC solvency ratio is close to 400% maybe. Somebody can give me the total number. So we are very richly capitalized in the U.S. because we are also having a stand-alone S&P rating in the U.S. And we have a full AA level under the Standard & Poor's model for our U.S. Life business. So yes, the first quarter NAIC number for U.S. was 394% ratio. So round it to 400%, that was not too wrong. And we have also a strong surplus under the S&P model. So therefore, I think when we would go to equivalent, that would certainly support our overall economic solvency number.

Nick Holmes
Societe Generale Cross Asset Research

Okay. So it would put it higher, but you can't actually quantify that in terms of 5 percentage points or 10 percentage points or something like that?

Dieter F. Wemmer
CFO & Member of Management Board

No, that is a very complicated question because I actually don't know how to calculate correlations when you remove 1 piece and replace it by something which has no meaning in our economic model. So the whole correlation calculation and diversification effect would be a bit strange to calculate it. Yes, the U.S. number, that is, indeed, a problem. But when you read the SEC documents of all the listed U.S. companies, they are all fighting the same issue of this tail hedging and accounting noise, but the NAIC accounting rules for VA businesses are not helpful in this context. Yes, when we move to the next phase of IFRS and all things would be on both sides being shown on fair value, that probably would remove quite some of the issues. You wanted some numbers on this hedging results. I think it is -- we are currently, in the first quarter, EUR 30 million worse than our plan. And last year, for example, we were EUR 90 million better than our plan. So that is about the noise you have to expect. Having said that, quite a lot of this deviation has then been compensated by counteracting DAC movements and also, it's counteractive in total when we accrue the policyholder benefits, in particular on the fixed index annuity business. So the final or eventual consequences of the noise are much, much smaller.

Nick Holmes
Societe Generale Cross Asset Research

And what is the split in terms of products, i.e, between the fixed annuities, fixed index annuities and the variable annuities? I mean, is it -- can you give us a split? Which product type is actually maybe 10% under the hedged?

Dieter F. Wemmer
CFO & Member of Management Board

Well, actually when we do the hedging result noises, actually, the negative all came this quarter from fixed index annuity. The VA business had actually a plus of EUR 4 million compared to last year where the base risk on the VA business has a small negative and then you have the accounting effects, which had bigger swings on VA than on the fixed index annuity business. It is a very complex table. And I'm feeling a bit nervous. The more I'm trying to explain it, the more I am confusing my audience.

Nick Holmes
Societe Generale Cross Asset Research

It's the nature of the subject, isn't it?

Operator

Our next question comes from Michael Haid from MainFirst Bank.

Michael Hermann Haid
MainFirst Bank AG, Research Division

For the sake of focus, just one question on PIMCO. On PIMCO, the gross fee margin of PIMCO increased from 39 to 41 basis points, very strong in the low interest rate environment and always, it looks as it cannot become better and it does. I understand the driver of this new solutions versus plain vanilla fixed income investments. I wonder if the margin that we see is the highest it gets or whether it can go higher. In the low interest rate environment, one naturally expects that it must come down. On the other hand, I have no idea about how much of your assets are from the sophisticated tailor-made solutions business how more you can acquire. Maybe some quantification would be helpful here.

Dieter F. Wemmer
CFO & Member of Management Board

Michael, very -- I thought I mentioned it in my presentation. The first quarter new inflows had an average margin of 63 basis points, which is substantially above the average. And that is not only the new solutions. Actually also, we are shifting much more from institutional business to retail. And the retail share is also growing. And that is, I think, makes also the business model of PIMCO more robust because the retail money is usually also swinging slower than institutional money. And that is probably a good -- the best explanation I can give at the moment. And 63 for the new money, it certainly gives quite some room to the current average. But I'm not indicating that we will end up at 63 after enough last quarters. That is probably a bit bullish.

Michael Hermann Haid
MainFirst Bank AG, Research Division

But the 63, is it basically all of this new business? Is this new basically the solutions?

Dieter F. Wemmer
CFO & Member of Management Board

Yes, I think we had close to 90% of -- as new inflows -- new solution. Actually, the old core products had actually EUR 3 billion outflows. So when you calculate out of the total inflows, so you have actually EUR 3 billion more in the new solutions. And so therefore, more than 100% of the inflow was new solution.

Michael Hermann Haid
MainFirst Bank AG, Research Division

And of the entire book?

Dieter F. Wemmer
CFO & Member of Management Board

Well, that is the total inflow compared to the total and I think the traditional core products declined 3 points during the quarter. So one last question.

Operator

We will take our last question, a follow-up question from Michael Huttner from JP Morgan.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

You said something in the beginning, which intrigues me and maybe this was already in the answers you gave. I wrote it down as P&C has still room to catch up, but maybe I wrote it down wrong.

Dieter F. Wemmer
CFO & Member of Management Board

That was on the revenue side. I think we are on a good development path. And certainly, our 3 core markets have moved from -- they had several years of shrinking when you are an old follower of the company. So when you look at premium volumes back to 2007, there were some pretty ugly years on the revenue side for our core markets. I think we are now in the small growth, but I am hoping there is more to come.

Oliver Schmidt
Head of Investor Relations

Yes. Thanks to everybody for joining the call. We say goodbye, and wish you a pleasant remaining afternoon.

Dieter F. Wemmer
CFO & Member of Management Board

Thank you, and bye.

Oliver Schmidt
Head of Investor Relations

And in case you have more questions, of course, the IR team will be very happy to help. Thank you.

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